POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated half-year report PSr 2018

(in accordance with § 60 section 2 and § 62 section 3 of the Decree of the Minister of Finance dated 29 March 2018)

for issuers of securities involved in production, construction, trade or services activities

for the first half of financial year **2018** from **1 January 2018** to **30 June 2018** containing the consolidated financial statements prepared under International Accounting Standard 34 in PLN and condensed financial statements under International Accounting Standard 34 in PLN.

publication date: 16 August 2018

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

KGHM Polska Miedź S.A.
(name of the issuer in brief)

Basic materials
(issuer branch title per the Warsaw Stock Exchange)

59 – 301
(postal code)

LUBIN
(city)

M. Skłodowskiej – Curie
(street)

48
(number)

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6920000013
(NIP)

390021764
(REGON)

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.
(auditing company)

This report is a direct translation from the original Polish version.
In the event of differences resulting from the translation, reference should be made to the official Polish version.

SELECTED FINANCIAL DATA

data concerning the consolidated financial statements of KGHM Polska Miedź S.A.

		in PLN mn		in EUR mn	
		from 1 January 2018 to 30 June 2018	**from 1 January 2017 to 30 June 2017**	**from 1 January 2018 to 30 June 2018**	**from 1 January 2017 to 30 June 2017**
I.	Revenues from contracts with customers	9 423	9 713	2 223	2 287
II.	Profit on sales	1 352	1 877	319	442
III.	Profit before income tax	984	1 649	232	388
IV.	Profit for the period	611	1 054	144	248
V.	Profit for the period attributable to shareholders of the Parent Entity	610	1 051	144	247
VI.	Profit for the period attributable to non-controlling interest	1	3	-	1
VII.	Other comprehensive net income	(401)	333	(94)	78
VIII.	Total comprehensive income	210	1 387	50	326
IX.	Total comprehensive income attributable to the shareholders of the Parent Entity	209	1 390	50	327
X.	Total comprehensive income attributable to non-controlling interest	1	(3)	-	(1)
XI.	Number of shares issued (million)	200	200	200	200
XII.	Earnings per ordinary share (in PLN/EUR) attributable to the shareholders of the Parent Entity	3.05	5.26	0.72	1.24
XIII.	Net cash generated from operating activities	704	1 192	166	281
XIV.	Net cash used in investing activities	(1 513)	(1 447)	(357)	(341)
XV.	Net cash generated from/(used in) financing activities	832	(164)	196	(39)
XVI.	Total net cash flow	23	(419)	5	(99)
		30 June 2018	**31 December 2017**	**30 June 2018**	**31 December 2017**
XVII.	Non-current assets	27 589	26 515	6 325	6 357
XVIII.	Current assets	8 482	7 607	1 945	1 824
XIX.	Total assets	36 071	34 122	8 270	8 181
XX.	Non-current liabilities	12 522	10 878	2 871	2 608
XXI.	Current liabilities	5 475	5 459	1 255	1 309
XXII.	Equity	18 074	17 785	4 144	4 264
XXIII.	Equity attributable to shareholders of the Parent Entity	17 983	17 694	4 123	4 242
XXIV.	Equity attributable to non-controlling interest	91	91	21	22

data concerning the condensed financial statements of KGHM Polska Miedź S.A.

		in PLN mn		in EUR mn	
		from 1 January 2018 to 30 June 2018	**from 1 January 2017 to 30 June 2017**	**from 1 January 2018 to 30 June 2018**	**from 1 January 2017 to 30 June 2017**
I.	Revenues from contracts with customers	7 189	7 701	1 696	1 813
II.	Profit on sales	1 166	1 735	275	408
III.	Profit before income tax	1 278	1 829	301	431
IV.	Profit for the period	987	1 310	233	308
V.	Other comprehensive net income	(245)	140	(58)	33
VI.	Total comprehensive income	742	1 450	175	341
VII.	Number of shares issued (million)	200	200	200	200
VIII.	Earnings per ordinary share (in PLN/EUR)	4.94	6.55	1.17	1.54
IX.	Net cash generated from operating activities	368	800	87	188
X.	Net cash used in investing activities	(1 157)	(1 226)	(273)	(289)
XI.	Net cash generated from financing activities	792	87	187	20
XII.	Total net cash flow	3	(339)	1	(81)
		30 June 2018	**31 December 2017**	**30 June 2018**	**31 December 2017**
XIII.	Non-current assets	26 163	25 071	5 998	6 011
XIV.	Current assets	6 576	5 876	1 508	1 409
XV.	Total assets	32 739	30 947	7 506	7 420
XVI.	Non-current liabilities	10 619	9 052	2 435	2 170
XVII.	Current liabilities	4 355	4 639	998	1 112
XVIII.	Equity	17 765	17 256	4 073	4 138

CONSOLIDATED HALF-YEAR REPORT PSr 2018 COMPRISES:

1. **AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

2. **AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS**

3. **DECLARATIONS BY THE MANAGEMENT BOARD**

4. **CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

5. **CONDENSED FINANCIAL STATEMENTS OF KGHM POLSKA MIEDŹ S.A.**

6. **THE MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF THE GROUP IN THE FIRST HALF OF 2018**

Lubin, August 2018

AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Lubin, August 2018

Deloitte Audyt
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INDEPENDENT AUDITOR'S REPORT ON REVIEW OF THE HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To Shareholders and Supervisory Board of KGHM Polska Miedź S.A.

Introduction

We have reviewed the accompanying half-year condensed consolidated financial statements of KGHM Polska Miedź S.A. Capital Group (hereinafter: the " Capital Group"), for which KGHM Polska Miedź S.A. with its registered office in Lubin, Marii Skłodowskiej-Curie 48 is the Parent (hereinafter: the "Parent Company"), comprising: condensed consolidated statement of profit or loss for the period from 1 January 2018 to 30 June 2018, condensed consolidated statement of comprehensive income for the period from 1 January 2018 to 30 June 2018, condensed consolidated statement of cash flows for the period from 1 January 2018 to 30 June 2018, condensed consolidated statement of financial position as at 30 June 2018, condensed consolidated statement of changes in equity for the period from 1 January 2018 to 30 June 2018 and selected explanatory notes ("half-year condensed consolidated financial statements").

The Management Board of the Parent Company is responsible for the preparation and presentation of these half-year condensed consolidated financial statements in accordance with International Accounting Standard 34 *"Interim Financial Reporting"* announced in the form of Commission Regulations.

Our responsibility is to express a conclusion on these half-year condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with National Standard on Review Engagements 2410 in line with the wording of International Standard on Review Engagements 2410 *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"* adopted by Resolution No. 2041/37a/2018 of the National Council of Statutory Auditors of 5 March 2018.

A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with National Standards on Auditing in line with the wording of International Standards on Auditing adopted by Resolution No. 2041/37a/2018 of the National Council of Statutory Auditors of 5 March 2018 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these half-year condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-year condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 *"Interim Financial Reporting"* announced in the form of Commission Regulations.

Auditor conducting the review on behalf of Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. — entity entered under number 73 on the list of auditors kept by the National Council of Statutory Auditors:

Adrian Karaś
Key certified auditor
conducting the review
No. 12194

Warsaw, 14th August 2018

This Report is an English version of the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS

Lubin, August 2018

Deloitte Audyt
Spółka z ograniczoną odpowiedzialnością Sp. k.
z siedzibą w Warszawie
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INDEPENDENT AUDITOR'S REPORT ON REVIEW OF THE HALF-YEAR CONDENSED FINANCIAL STATEMENTS

To the Shareholders and Supervisory Board of KGHM Polska Miedź S.A.

Introduction

We have reviewed the accompanying half-year condensed financial statements of KGHM Polska Miedź S.A. with its registered office in Lubin, Marii Skłodowskiej-Curie 48, (hereinafter: the "Company"), comprising: condensed statement of profit or loss for the period from 1 January 2018 to 30 June 2018, condensed statement of comprehensive income for the period from 1 January 2018 to 30 June 2018, condensed statement of cash flows for the period from 1 January 2018 to 30 June 2018, condensed statement of financial position as at 30 June 2018, condensed statement of changes in equity for the period from 1 January 2018 to 30 June 2018 and selected explanatory notes ("half-year condensed financial statements").

The Management Board of the Company is responsible for the preparation and presentation of these half-year condensed financial statements in accordance with International Accounting Standard 34 "*Interim Financial Reporting"* announced in the form of Commission Regulations.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-year condensed financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 *"Interim Financial Reporting"* announced in the form of Commission Regulations.

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Adrian Karaś
Key certified auditor
conducting the review
No. 12194

Warsaw, 14^{th} August 2018

This Report is an English version of the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

DECLARATIONS
BY THE MANAGEMENT BOARD

Lubin, August 2018

DECLARATIONS BY THE MANAGEMENT BOARD

DECLARATION BY THE MANAGEMENT BOARD OF KGHM POLSKA MIEDŹ S.A. ON THE ACCURACY OF THE PREPARED FINANCIAL STATEMENTS

The Management Board of KGHM Polska Miedź S.A. declares that according to its best judgement:

- condensed consolidated financial statements for the first half of 2018 and comparative data have been prepared in accordance with accounting principles currently in force, and give a true, fair and clear view of the financial position of the KGHM Polska Miedź S.A. Group and the profit for the period of the Group,
- condensed financial statements of KGHM Polska Miedź S.A. for the first half of 2018 and comparative data have been prepared in accordance with accounting principles currently in force, and give a true, fair and clear view of the financial position of KGHM Polska Miedź S.A. and the profit for the period of KGHM Polska Miedź S.A.,
- the Management Board's report on the activities of the Group in the first half of 2018 presents a true picture of the development and achievements, as well as the condition, of the KGHM Polska Miedź S.A. Group, including a description of the basic exposures and risks.

DECLARATION BY THE MANAGEMENT BOARD OF KGHM POLSKA MIEDŹ S.A. REGARDING THE ENTITY ENTITLED TO AUDIT FINANCIAL STATEMENTS

The entity entitled to audit financial statements, and which has reviewed the half-year consolidated financial statements and the half-year condensed financial statements of KGHM Polska Miedź S.A., was selected in compliance with legal provisions. This entity, as well as the certified auditors who have carried out this review, have met the conditions for issuing impartial and independent reports on their review of interim condensed consolidated financial statements as well as of the interim condensed financial statements of KGHM Polska Miedź S.A., in compliance with appropriate legal provisions and professional standards.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last Name**	**Position**	**Signature**
14 August 2018	Marcin Chludziński	President of the Management Board	
14 August 2018	Katarzyna Kreczmańska – Gigol	Vice President of the Management Board	
14 August 2018	Radosław Stach	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last Name**	**Position / Function**	**Signature**
14 August 2018	Łukasz Stelmach	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A	

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Lubin, August 2018

Table of contents

Condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Note 2.3	Revenues from contracts with customers, including:	9 423	9 713
	from sales. for which the amount of revenue was not finally determined at the end of the reporting period (IFRS 15.114)	977	N/A*
Note 3.1	Cost of sales	(7 431)	(7 215)
	Gross profit	**1 992**	**2 498**
Note 3.1	Selling costs and administrative expenses	(640)	(621)
	Profit on sales	**1 352**	**1 877**
	Share of losses of joint ventures accounted for using the equity method	(254)	(215)
	Interest income on loans granted to joint ventures using the effective discount rate method	126	161
	Profit or loss on involvement in joint ventures	(128)	(54)
Note 3.2	Other operating income and (costs), including:	363	(858)
	interest income calculated using the effective discount rate method	4	N/A*
Note 3.3	Finance income and (costs)	(603)	684
	Profit before income tax	**984**	**1 649**
	Income tax expense	(373)	(595)
	PROFIT FOR THE PERIOD	**611**	**1 054**
	Profit for the period attributable to:		
	Shareholders of the Parent Entity	610	1 051
	Non-controlling interest	1	3
	Weighted average number of ordinary shares (million)	**200**	**200**
	Basic/diluted earnings per share (in PLN)	**3.05**	**5.26**

** N/A – not applicable – items in which the following did not occur in the first half of 2017: measurement in accordance with principles arising from the application, from 1 January 2018, of IFRS 9, and the disclosure requirement of IFRS 15.*

amounts in PLN millions, unless otherwise stated

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Profit for the period	**611**	**1 054**
Measurement of hedging instruments net of the tax effect	56	173
Measurement of available-for-sale financial assets net of the tax effect	N/A*	110
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(142)	197
Other comprehensive income which will be reclassified to profit or loss	**(86)**	**480**
Measurement of equity financial instruments at fair value net of the tax effect	(124)	N/A*
Actuarial losses net of the tax effect	(191)	(147)
Other comprehensive income, which will not be reclassified to profit or loss	**(315)**	**(147)**
Total other comprehensive net income	**(401)**	**333**
TOTAL COMPREHENSIVE INCOME	**210**	**1 387**
Total comprehensive income attributable to:		
Shareholders of the Parent Entity	209	1 390
Non-controlling interest	1	(3)

** N/A – not applicable – items which do not occur due to the change in classification, from 1 January 2018, of equity financial instruments in accordance with IFRS 9. Listed shares measured at fair value and unquoted shares measured at cost were in the category of available –for-sale financial assets.*

amounts in PLN millions, unless otherwise stated

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
	Cash flow from operating activities		
	Profit before income tax	984	1 649
	Depreciation/amortisation recognised in profit or loss	864	772
	Share of losses of joint ventures accounted for using the equity method	254	215
	Interest on loans granted to joint ventures	(126)	(161)
	Interest and other costs of borrowings	70	78
	Impairment losses on non-current assets	14	1
	Exchange differences, of which:	(52)	173
	from investing activities and cash	(585)	988
	from financing activities	533	(815)
	Change in provisions	231	19
	Change in other receivables and liabilities	89	(203)
	Change in assets/liabilities due to derivatives	(164)	(86)
Note 4.10	Other adjustments	(7)	(25)
	Exclusions of income and costs, total	1 173	783
	Income tax paid	(413)	(703)
Note 4.11	Changes in working capital	(1 040)	(537)
	Net cash generated from operating activities	**704**	**1 192**
	Cash flow from investing activities		
	Expenditures on mining and metallurgical assets	(1 153)	(1 111)
	Expenditures on other property, plant and equipment and intangible assets	(121)	(97)
	Acquisition of newly-issued shares of a joint venture	(262)	(206)
	Other expenses	(46)	(55)
	Total expenses	(1 582)	(1 469)
	Proceeds	69	22
	Net cash used in investing activities	**(1 513)**	**(1 447)**
	Cash flow from financing activities		
	Proceeds from borrowings	2 065	1 447
	Other proceeds	2	2
	Total proceeds	2 067	1 449
	Repayments of borrowings	(1 165)	(1 532)
	Interest paid and other costs of borrowings	(70)	(81)
	Total expenses	**(1 235)**	(1 613)
	Net cash generated from/(used in) financing activities	**832**	**(164)**
	TOTAL NET CASH FLOW	**23**	**(419)**
	Exchange gains	**1**	**5**
	Cash and cash equivalents at beginning of the period	**586**	**860**
	Cash and cash equivalents at end of the period	**610**	**446**

amounts in PLN millions, unless otherwise stated

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2018	31 December 2017
	ASSETS		
	Mining and metallurgical property, plant and equipment	16 469	16 296
	Mining and metallurgical intangible assets	1 557	1 447
	Mining and metallurgical property, plant and equipment and intangible assets	18 026	17 743
	Other property, plant and equipment	2 746	2 679
	Other intangible assets	207	209
	Other property, plant and equipment and intangible assets	2 953	2 888
	Joint ventures accounted for using the equity method	6	8
	Loans granted to joint ventures	4 316	3 889
Note 4.2	Total involvement in joint ventures	4 322	3 897
	Derivatives	329	110
	Other financial instruments measured at fair value	527	614
	Other financial assets	781	762
Note 4.3	Financial instruments, total	1 637	1 486
	Deferred tax assets	542	389
	Other non-financial assets	109	112
	Non-current assets	**27 589**	**26 515**
	Inventories	5 568	4 562
Note 4.3	Trade receivables, including:	1 222	1 522
	Trade receivables measured at fair value	549	N/A*
	Tax assets	226	277
Note 4.3	Derivatives	158	196
	Other financial assets	296	265
	Other assets	402	199
Note 4.3	Cash and cash equivalents	610	586
	Current assets	**8 482**	**7 607**
		36 071	**34 122**
	EQUITY AND LIABILITIES		
	Share capital	2 000	2 000
	Other reserves from measurement of financial instruments	(636)	158
	Accumulated other comprehensive income	2 094	2 427
	Retained earnings	14 525	13 109
	Equity attributable to shareholders of the Parent Entity	17 983	17 694
	Equity attributable to non-controlling interest	91	91
	Equity	**18 074**	**17 785**
Note 4.3	Borrowings	7 472	6 191
Note 4.3	Derivatives	204	208
Note 4.6	Employee benefits liabilities	2 328	2 063
	Provisions for decommissioning costs of mines and other technological facilities	1 418	1 351
	Deferred tax liabilities	495	347
	Other liabilities	605	718
	Non-current liabilities	12 522	10 878
Note 4.3	Borrowings	1 151	965
Note 4.3	Derivatives	51	110
Note 4.3	Trade payables	1 394	1 823
Note 4.6	Employee benefits liabilities	820	842
	Tax liabilities	738	630
	Provisions for liabilities and other charges	283	114
	Other liabilities	1 038	975
	Current liabilities	5 475	5 459
	Non-current and current liabilities	**17 997**	**16 337**
		36 071	**34 122**

** N/A – not applicable – items which in 2017 were not measured in accordance with principles arising from the application, from 1 January 2018, of IFRS 9 and IFRS 15.*

amounts in PLN millions, unless otherwise stated

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Equity attributable to shareholders of the Parent Entity						
		Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings	Total	Equity attributable to non-controlling interest	Total equity
	As at 1 January 2017	**2 000**	**(183)**	**2 216**	**11 739**	**15 772**	**139**	**15 911**
	Dividend	-	-	-	(200)	**(200)**	-	**(200)**
	Transactions with non-controlling interest	-	-	-	1	**1**	-	**1**
	Transactions with owners	-	-	-	(199)	**(199)**	-	**(199)**
	Profit for the period	**-**	-	-	1 051	**1 051**	3	**1 054**
	Other comprehensive income	-	283	56	-	**339**	(6)	**333**
	Total comprehensive income	-	283	56	1 051	**1 390**	(3)	**1 387**
	As at 30 June 2017	**2 000**	**100**	**2 272**	**12 591**	**16 963**	**136**	**17 099**
	As at 31 December 2017	**2 000**	**158**	**2 427**	**13 109**	**17 694**	**91**	**17 785**
Note 1.4	Change in accounting policies – application of IFRS 9, IFRS 15	-	(726)	-	806	**80**	-	**80**
	As at 1 January 2018	**2 000**	**(568)**	**2 427**	**13 915**	**17 774**	**91**	**17 865**
	Transactions with non-controlling interest	-	-	-	-	**-**	(1)	**(1)**
	Transactions with owners	-	-	-	-	**-**	(1)	**(1)**
	Profit for the period	-	-	-	610	**610**	1	**611**
	Other comprehensive income	-	(68)	(333)	-	**(401)**	-	**(401)**
	Total comprehensive income	**-**	**(68)**	**(333)**	**610**	**209**	**1**	**210**
	As at 30 June 2018	**2 000**	**(636)**	**2 094**	**14 525**	**17 983**	**91**	**18 074**

Part 1 – General information

Note 1.1 Corporate information

KGHM Polska Miedź S.A. ("the Parent Entity") with its registered office in Lubin at 48 M.Skłodowskiej-Curie Street is a joint stock company registered at the Regional Court for Wrocław Fabryczna, Section IX (Economic) of the National Court Register, entry no. KRS 23302, on the territory of the Republic of Poland.

KGHM Polska Miedź S.A. has a multi-divisional organisational structure, comprised of a Head Office and 10 divisions: 3 mines (Lubin Mine Division, Polkowice-Sieroszowice Mine Division, Rudna Mine Division), 3 metallurgical plants (Głogów Smelter/Refinery, Legnica Smelter/Refinery, Cedynia Wire Rod Division), the Concentrator Division, the Tailings Division, the Mine-Smelter Emergency Rescue Division and the Data Center Division.

The shares of KGHM Polska Miedź S.A. are listed on the Warsaw Stock Exchange.

The Parent Entity's principal activities include:

- the mining of copper and non-ferrous metals ores; and
- the production of copper, precious and non-ferrous metals.

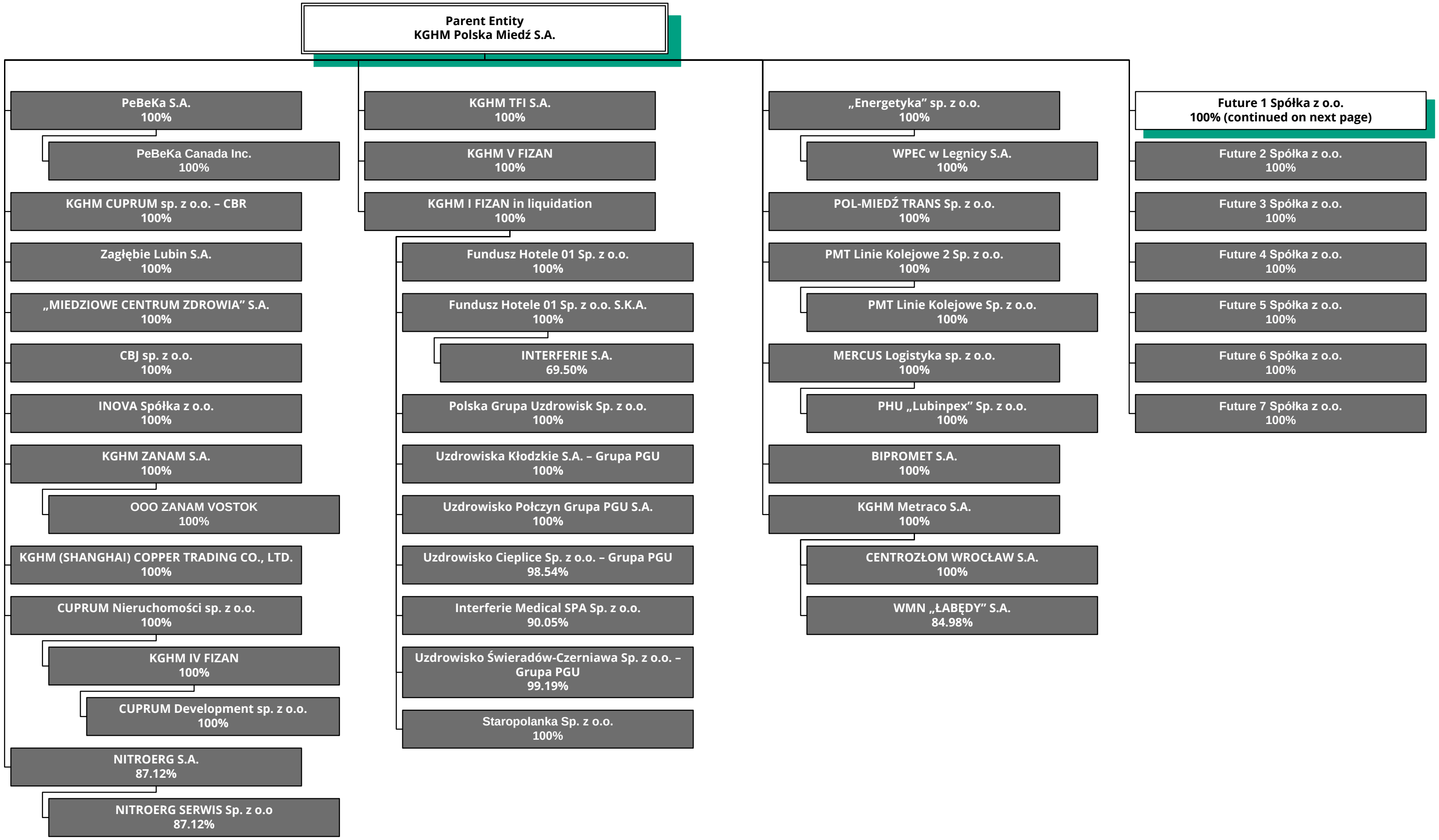
The business activities of the Group include:

- the mining of copper and non-ferrous metals ores;
- the mined production of metals, including copper, nickel, silver, gold, platinum, palladium;
- the production of goods from copper and precious metals;
- underground construction services;
- the production of machinery and mining equipment;
- transport services;
- services in the areas of research, analysis and design;
- the production of road-building materials; and
- the recovery of associated metals from copper ore.

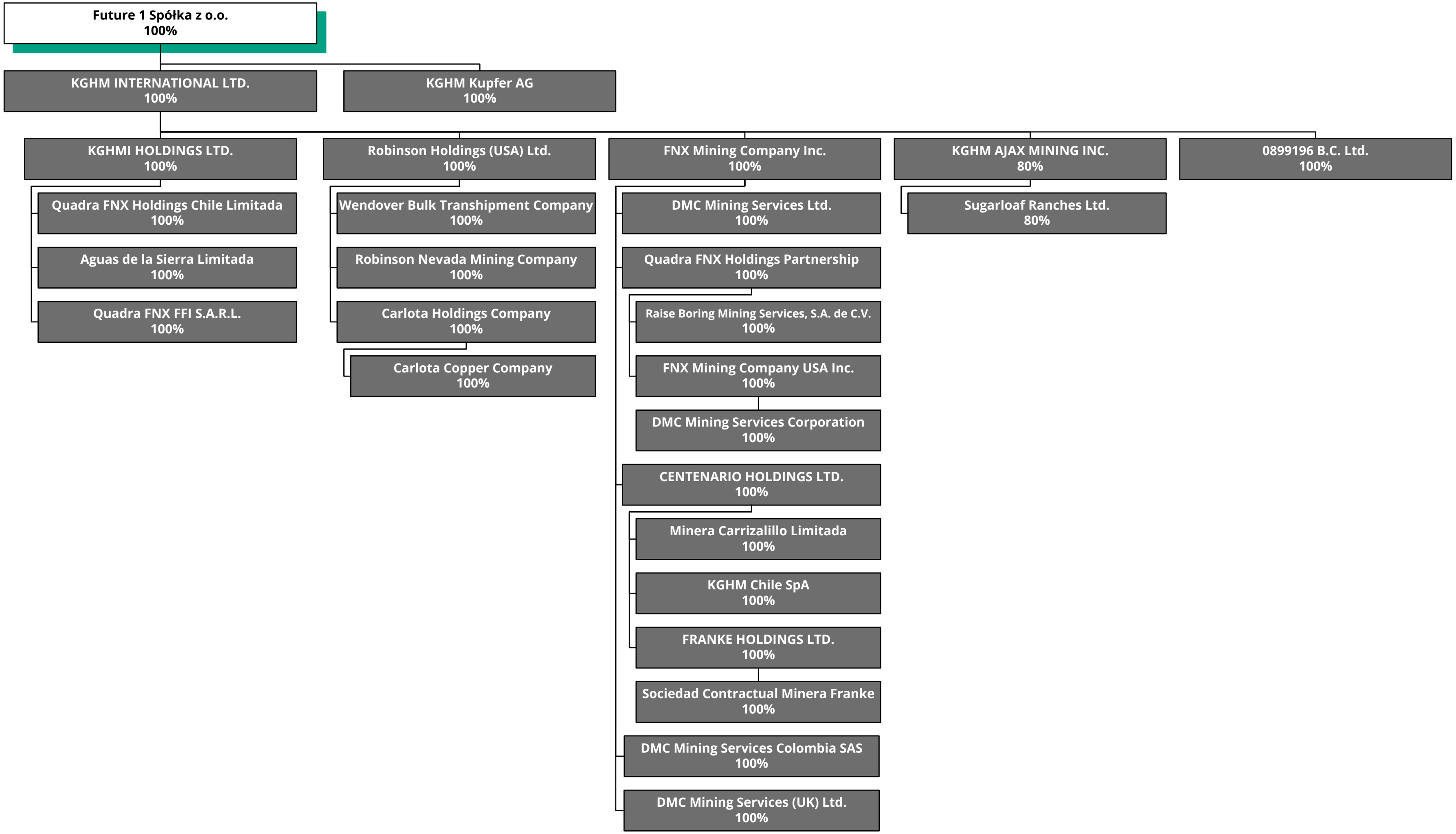
The KGHM Polska Miedź S.A. Group carries out exploration and mining of copper, nickel and precious metals based on concessions for Polish deposits given to KGHM Polska Miedź S.A., and also based on legal titles held by the KGHM INTERNATIONAL LTD. Group for the exploration for and mining of these resources in the USA, Canada and Chile.

Note 1.2 Structure of the KGHM Polska Miedź S.A. Group as at 30 June 2018

In the current half-year, KGHM Polska Miedź S.A. consolidated 73 subsidiaries and used the equity method to account for the shares of two joint ventures (Sierra Gorda S.C.M. and NANO CARBON Sp. z o.o.).



The percentage share represents the total share of the Group.



Future 1 Spółka z o.o. 100%
KGHM INTERNATIONAL LTD. 100%
KGHM Kupfer AG 100%
KGHMI HOLDINGS LTD. 100%
Quadra FNX Holdings Chile Limitada 100%
Aguas de la Sierra Limitada 100%
Quadra FNX FFI S.A.R.L. 100%
Robinson Holdings (USA) Ltd. 100%
Wendover Bulk Transhipment Company 100%
Robinson Nevada Mining Company 100%
Carlota Holdings Company 100%
Carlota Copper Company 100%
FNX Mining Company Inc. 100%
DMC Mining Services Ltd. 100%
Quadra FNX Holdings Partnership 100%
Raise Boring Mining Services, S.A. de C.V. 100%
FNX Mining Company USA Inc. 100%
DMC Mining Services Corporation 100%
CENTENARIO HOLDINGS LTD. 100%
Minera Carrizalillo Limitada 100%
KGHM Chile SpA 100%
FRANKE HOLDINGS LTD. 100%
Sociedad Contractual Minera Franke 100%
DMC Mining Services Colombia SAS 100%
DMC Mining Services (UK) Ltd. 100%
KGHM AJAX MINING INC. 80%
Sugarloaf Ranches Ltd. 80%
0899196 B.C. Ltd. 100%

Note 1.3 Exchange rates applied

The following exchange rates were applied in the conversion of selected financial data in EUR:

- for the conversion of turnover, profit or loss and cash flow for the current period, the rate of ***4.2395 EURPLN*,***
- for the conversion of turnover, profit or loss and cash flow for the comparable period, the rate of ***4.2474 EURPLN*,***
- for the conversion of assets, equity and liabilities at 30 June 2018, the current average exchange rate announced by the National Bank of Poland (NBP) as at 29 June 2018, of ***4.3616 EURPLN,***
- for the conversion of assets, equity and liabilities at 31 December 2017, the current average exchange rate announced by the NBP as at 29 December 2017, of ***4.1709 EURPLN.***

**the rates represent the arithmetic average of current average exchange rates announced by the NBP on the last day of each month during the period from January to June respectively of 2018 and 2017.*

Note 1.4 Accounting policies and the impact of new and amended standards and interpretations

The following consolidated half-year report includes:

– condensed consolidated financial statements of the KGHM Polska Miedź S.A. Group (hereafter: consolidated financial statements) for the period from 1 January to 30 June 2018 and the comparable period from 1 January to 30 June 2017, together with selected explanatory information;
– condensed financial statements of KGHM Polska Miedź S.A. (hereafter: financial statements) for the period from 1 January to 30 June 2018 and the comparable period from 1 January to 30 June 2017, together with selected explanatory information;
– the Management Board's report on the activities of the Group.

The condensed consolidated financial statements as at 30 June 2018 as well as the condensed financial statements as at 30 June 2018 were reviewed by a certified auditor.

The consolidated half-year report for the period from 1 January 2018 to 30 June 2018 was prepared in accordance with IAS 34 Interim Financial Reporting as approved by the European Union and for a full understanding of the financial position and operating results of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group, should be read jointly with the Annual report R 2017 and the Consolidated annual report RS 2017.

This half-year report's financial statements were prepared using the same accounting policies and valuation methods for the current and comparable periods and principles applied in annual financial statements (consolidated and separate), prepared as at 31 December 2017, with the exception of accounting policies and measurement arising from the application of IFRS 9 and IFRS 15 which are presented below.

Note 1.4.1 Impact of new and amended standards and interpretations

The International Accounting Standards Board approved the following new standards for use after 1 January 2018:

- IFRS 9 "Financial Instruments", which replaced IAS 39 "Financial Instruments: Recognition and Measurement".
- IFRS 15 "Revenue from contracts with customers" and Amendments to IFRS 15, clarifying some of the standard's requirements, which replaced the standards IAS 11 and 18, as well as the following interpretations: IFRIC 13, 15, 18 and SIC 31.

The impact of the application of the aforementioned standards on the Group's accounting policy and on these consolidated financial statements.

IFRS 9 Financial Instruments

The Group did not make early implementation of IFRS 9 and applied the requirements of IFRS 9 retrospectively for periods beginning on or after 1 January 2018. In accordance with the possibility provided by the standard, the Group decided against the restatement of comparative data. Changes in the measurement of financial assets and financial liabilities, as at the date of initial application of the standard, were recognised in retained earnings. Implementation of IFRS 9 resulted in a change in accounting policy with respect to the recognition, classification and measurement of financial assets, the measurement of financial liabilities, impairment losses on financial assets and hedge accounting.

Selected accounting policy

Measurement of financial assets and financial liabilities

As at 1 January 2018, the Group classifies financial assets to the following categories:

- financial assets measured at amortised cost,
- financial assets measured at fair value through other comprehensive income,
- financial assets measured at fair value through profit or loss, or
- derivative hedging instruments.

Classification is made upon initial recognition of a given asset. Classification of debt financial assets depends on a business model for financial assets management and on the nature of the contractual cash flows (SPPI test) for a given financial asset.

The Group classifies the following assets to the category **assets measured at amortised cost:** trade receivables (except for receivables subject to factoring agreements and trade receivables priced upon M+ formula, i.e. for which the final price is set after the end of the reporting period), loans granted which pass the SPPI test, other receivables, deposits and cash and cash equivalents.
Financial assets measured at amortised cost are stated at amortised cost determined using the effective interest rate method, less allowance for impairment. Trade receivables with the maturity period of up to 12 months (i.e. with no financing element) from the receivable origination date (which are not subject to factoring) are not discounted and they are measured at nominal value. In the case of purchased or originated credit-impaired (POCI) financial assets at the moment of initial recognition, such assets are measured at amortised cost using the effective interest rate adjusted for credit risk.

The following are classified to the category **assets measured at fair value through other comprehensive income**:

1. a financial asset, if the following conditions are met:
   - it is held within the business model whose objective is achieved by collecting contractual cash flows due to holding and selling financial assets, and
   - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. the SPPI test was passed),

   Impact of changes in fair value is recognised in other comprehensive income up to the moment of derecognition of an asset from the statement of financial position, when the accumulated profit/loss is recognised in the statement of profit or loss.
2. an equity instrument, which at initial recognition was irrevocably elected to be classified to this category. The option of fair value through other comprehensive income is not available for instruments held for trading.

Gains and losses, on both measurement and realisation of these assets, are recognised in other comprehensive income, with the exception of income on dividends received, which is recognised in the statement of profit or loss.

All financial instruments that were not classified as measured at amortised cost or measured at fair value through other comprehensive income, as well as the ones that the Group decided to classify as such in order to eliminate the accounting mismatch, are classified to the category **assets measured at fair value through profit or loss.**
The Group classifies the following to this category: trade receivables subject to factoring arrangements, trade receivables priced upon M+ formula, loans granted which did not pass the contractual cash flows test and derivatives which were classified as assets on the condition that they were not designated as hedging instruments.
Gains and losses on financial assets which are classified as financial assets measured at fair value through profit or loss are recognised in profit or loss in the period in which they arise (including interest income and income on dividends received).

Also classified to **financial hedging instruments** are financial assets and financial liabilities representing financial instruments designated and qualifying for hedge accounting, measured at fair value that accounts for all market and credit risk components.

As at 1 January 2018, the Group classifies financial liabilities to the following categories:
- financial liabilities measured at amortised cost,
- financial liabilities measured at fair value through profit or loss, or
- financial hedging instruments.

Liabilities measured at amortised cost include liabilities other than measured at fair value through profit or loss (such as trade liabilities and bank and other loans), with the exception of:
- o financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition,
- o financial guarantee agreements, measured at the higher of the following amounts:
  - the amount of allowance for expected credit losses determined in accordance with IFRS 9;
  - the amount initially recognised (i.e. fair value increased by transaction costs that may be directly attributed to a financial liability) less cumulative revenue recognised according to IFRS 15 Revenue from contracts with customers.

Liabilities measured at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at their initial recognition to measurement at fair value through profit or loss. Financial liabilities held for trading include derivatives which are not designated for hedge accounting purposes.

Impairment of financial assets

IFRS 9 introduces a new approach to estimating losses on financial assets measured at amortised cost. This approach is based on indicating expected losses, regardless of whether or not there have occurred any indications of impairment.

The Group applies the following models to determine impairment losses:
- general model,
- simplified model.

Under the general model the Group monitors changes in the level of credit risk related to a given financial asset and classifies the financial asset to one of three stages of determining impairment losses:

Stage 1 – amount in respect of which there has not been a substantial increase in credit risk from the moment of initial recognition and for which the amount of the expected impairment loss is set based on the default probability within 12 months,
Stage 2 – amount in respect of which there has been a substantial increase in credit risk from the moment of initial recognition and for which the amount of the expected impairment loss is set based on the default probability within the entire loan period,
Stage 3 – amount with impairment.

Under the simplified model the Group does not monitor changes in the level of credit risk during the instrument lifetime, but estimates the expected credit loss in the horizon to the instrument's maturity.

In order to estimate the expected credit loss the Group makes use of the following:
- under the general model – default probability levels, forecasted based on market quotations of credit derivative instruments, for entities with a given credit rating from the given sector,
- under the simplified model – the historic levels of repayment of receivables and a two-stage approach (quality and quantity) to the accounting for the impact of macroeconomic conditions on the recovery rates.

The Group considers default payment where receivable balance is 90 days past due.
Under the applied ECL parameters estimation model the Group accounts for the information regarding future, by adjusting base ratios of probability of default (for receivables) or by calculating probability of default parameters based on current market quotations (for other financial assets).

The Group applies the simplified model to calculate a loss allowance for trade receivables.
The general model is applied to the remaining types of financial assets, including debt financial assets measured at fair value through other comprehensive income.

The impairment loss on debt financial instruments measured at amortised cost (at the moment of initial recognition and calculated for each successive day ending a reporting period) are recognised in other operating costs. Gains (reversals of impairment loss) due to a decrease in the expected amount of the impairment are recognised in other operating income.

For purchased or originated credit impaired assets at the moment of initial recognition (POCI), favourable changes in expected credit losses are recognised as gain due to reversal of impairment losses in other operating income.

Impairment losses on debt financial instruments measured at fair value through other comprehensive income are recognised in other operating costs in correspondence with other comprehensive income, while not lowering the carrying amount of a financial asset in the statement of financial position. Gains (reversals of impairment loss) due to a decrease in the amount of the expected credit loss are recognised in other operating income in correspondence with other comprehensive income.

amounts in PLN millions, unless otherwise stated

Hedge accounting

Hedges include fair value hedges, cash flow hedges and hedges of net investment in foreign operations.

The Group does not use either fair value hedges or hedges of net investments in foreign operations. Hedging instruments are designated as cash flow hedges.
In a cash flow hedge, a derivative used as a hedging instrument is an instrument which:

- hedges the exposure to volatility of cash flows which is attributable to a particular type of risk associated with an asset or liability recognised in the statement of financial position, or a highly probable forecast transaction, and
- will affect profit or loss in the statement of profit or loss.

Gains and losses arising from changes in the fair value of cash flow hedging instruments are recognised in other comprehensive income, to the extent by which the given instrument represents an effective hedge of the associated hedged item. Moreover, the Group recognises, in other reserves from measurement of hedging instruments, the portion of the gain or loss on the hedging instrument arising from changes in the time value of options, forward elements and currency margin (cross currency basis spread), with the provision that with respect to the last two elements, the Group may each time select the method of recognition (through equity or directly to profit or loss).
The ineffective portion of a hedge is taken to the profit or loss as other operating income or other operating cost (in case of hedges of cash flows from operating activities), and as finance income or finance costs (in case of hedges of cash flows from financing activities).
Gains and losses originating from cash flow hedges are taken to the profit or loss at the time when the underlying hedged item affects profit or loss.
In particular, with respect to the gain or loss arising from changes in the time value of options, forward element and currency margin, the reclassification from equity (from other comprehensive income) to profit or loss (as other operating income or other operating cost for hedges of cash flows from operating activities, and as finance income or finance costs for hedges of cash flows from financing activities) is carried out on a one-off basis, if realisation of the hedged item is related to a transaction, or is amortised over the lifetime of a hedging relationship, if realisation of a hedged item is effected over time.

The Group applies the following requirements of effectiveness to a hedging relationship:

- there is an economic relationship between the hedged item and the hedging instrument,

- the effect of credit risk does not dominate the fair value changes of a hedged item or hedging instrument,

- the hedge ratio is the same as that resulting from the quantity (nominal) of the hedged item that the Group actually hedges and the quantity (nominal) of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The impact of IFRS 9 on the change in the classification and measurement of the Group's financial instruments as at 1 January 2018.

(IFRS 7, par. 42I, 42J, 42O):

	Classification per IAS 39	Classification per IFRS 9	Carrying amount per IAS 39	Carrying amount per IFRS 9	Reference to explanations below the table
Financial assets			**31 December 2017**	**1 January 2018**	
Available-for-sale financial assets (equity instruments)	Available for sale	Fair value through other comprehensive income	673	709	(a)
Loans granted	Loans and receivables	Fair value through profit or loss	17	17	(b)
Loans granted	Loans and receivables	Amortised cost	3 892	3 892	(c)
Trade receivables - trade receivables subject to factoring arrangements and priced upon M+ formula	Loans and receivables	Fair value through profit or loss	782	798	(d)
Trade receivables - trade receivables subject to impairment allowance due to expected impairment	Loans and receivables	Amortised cost	740	723	(e)

Other receivables - receivables due to the present value of future payments respecting financial guarantees	Loans and receivables	Amortised cost	67	100	(f)
Financial liabilities					
Other liabilities - liabilities due to financial guarantees	Financial liabilities measured at amortised cost	Initially recognised fair value, increased by the transaction costs and reversals of the initial discount to the measurement date and decreased by the amount of revenues recognised in profit or loss	-	37	(f)

The comments below concern the table summarising the impact of IFRS 9 on the change in classification and measurement of the Group's financial instruments as at 1 January 2018.

a) This item is comprised of equity instruments not held for trading, in accordance with IAS 39 classified as available-for-sale, which were measured at fair value (listed) and at cost (unquoted) by the Group. Because these instruments were not purchased in order to be traded, by the Parent Entity's decision, these assets will be measured at fair value through other comprehensive income, without the possibility of later transfer of gains or losses on these instruments to the profit or loss. These equity instruments are presented in the financial statements in the item "Other financial instruments measured at fair value".

b) This item is comprised of loans granted which did not pass the SPPI (solely payments of principal and interest) test, because in the structure of financing the target recipient of funds, at the last stage, debt is changed into capital (the amount of capital is material) pursuant to the methodology of classification of financial instruments. Due to the above, these assets are measured at fair value through profit or loss. These financial instruments are presented in the financial statements in the item "Other financial instruments measured at fair value".

c) This item is comprised of loans granted to joint ventures, which met two conditions: they are in a business model whose objective is achieved by collecting contractual cash flows due to holding financial assets and passed the SPPI test. They were classified to credit impaired financial assets at the moment of initial recognition and presented in the financial statements in the item „Loans granted to joint ventures".

d) This item is comprised of trade receivables subject to factoring agreements, which were classified to the business model – held for sale (Model 3), as well as trade receivables priced upon M+ formula, which did not pass the SPPI test because of the derivative embedded within the M+ pricing formula. Due to the aforementioned determinations, these trade receivables are measured at fair value through profit or loss. They are presented in the financial statements in the item "Trade receivables measured at fair value".

e) For trade receivables whose objective is achieved by collecting contractual cash flows (Model 1) that passed the SPPI test and are measured at amortised cost, in order to determine the expected impairment the Group applied the simplified model and estimated the amount of the expected impairment during the life of the asset, applying a delay payments matrix based on historical data, reflecting the requirements of the standard with respect to current and forecasted economic conditions. These trade receivables are presented in the financial statements in the item "Trade receivables".

f) This item is comprised of guarantees granted to Sierra Gorda to secure its obligations arising from lease contracts and short-term bank loans. Receivables due to guarantees (passed SPPI test, assets whose objective is achieved by collecting contractual cash flows) are measured at amortised cost and are recognised at the present value of future payments and then corrected by the unwinding of the discount effect and the impairment due to the expected credit losses in correspondence with the liability. The results of the measurement of financial guarantees are presented in the financial statements in the following manner: for receivables, in the item "Other financial assets", while the liabilities are presented in the item "Other liabilities".

With the exception of the aforementioned items of other financial assets and liabilities, there were no changes arising from changes in classification or changes in measurement of financial instruments.

amounts in PLN millions, unless otherwise stated

The following table presents a reconciliation of **impairment allowances** estimated in accordance with IAS 39 as at 31 December 2017 with the amount of impairment allowances estimated in accordance with IFRS 9 as at 1 January 2018. Changes in impairment allowances estimated in accordance with IFRS 9 arise from a change in the classification of financial assets between the categories of financial assets measured at amortised cost and at fair value, as well as from the remeasurement of impairment allowances reflecting the requirements of the model of expected credit losses (IFRS 7.42P).

Category of assets	Amount of allowance per IAS 39 as at 31 December 2017	Change due to change in classification	Change due to change in measurement	Amount of allowance per IFRS 9 as at 1 January 2018
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Loans granted	3 683	(3 683)	-	-
Trade receivables	47	-	17	64
Total	**3 730**	**(3 683)**	**17**	**64**
Available-for-sale assets (IAS 39) / Financial assets at fair value through other comprehensive income (IFRS 9)				
Available-for-sale financial assets	691	(691)	-	-
Total	**691**	**(691)**	**-**	**-**

IFRS 15 Revenue from Contracts with Customers

As part of the implementation of IFRS 15, the Group performed a framework analysis of impact of the application of the standard on the consolidated financial statements. The results of the analysis were presented in the consolidated financial statements of the KGHM Polska Miedź S.A. Group for 2017 (RS 2017).

The Group applied IFRS 15 from 1 January 2018, pursuant to paragraph C3 (b) and C7 – retrospectively, with joint effect of the first application of a standard as an adjustment of the opening balance of retained earnings in 2018.

Selected accounting policy

In accordance with IFRS 15, as at 1 January 2018 the Group recognises revenue from contracts with customers when the Group's entity satisfies a performance obligation by transferring a promised good or service to a customer, which is when the customer obtains control of that asset., i.e. the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset, as well as the ability to prevent other entities from directing the use of, and obtaining the benefits from, the asset.

The Group recognises as a performance obligation every contractual promise to transfer to a customer a good or service that is distinct, or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. For each performance obligation, a Group entity determines (based on contractual terms), whether the obligation will be performed over time or at a specified moment.

Revenues from the sale of products, merchandise and materials are recognised in profit or loss once at a point in time when the performance obligation is satisfied (in accordance with the applied INCOTERMS principles).

Revenues from the sale of services are recognised in profit or loss over time if one of the following criteria is met:
- the customer simultaneously receives and consumes the benefits provided by the Group entity's performance as the entity performs, or
- the Group entity satisfies a performance obligation and creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced, or
- the Group entity's performance creates an asset without an alternative use to the Group entity and the entity has an enforceable right to payment for performance completed to date.

The allocation of a transaction price to each performance obligation is made based on a relative stand-alone selling price basis.

Revenues arising from ordinary operating activities of the Group, i.e. revenues from sales of products, merchandise and materials are recognised in the statement of profit or loss as revenues from contracts with customers.
Revenues from contracts with customers are recognised in the amount of the transaction price (including any discounts granted and rebates).

The transaction price also reflects the effects of the time value of money if a contract with a customer contains a significant financing component, which is determined based on the contractual payment terms, regardless of whether the promise of financing is explicitly stated in the contract. A financing component is recognised as significant if at contract inception, the period between the date when a promised good or service is transferred to a customer and when the consideration for the good or service is made by the customer is longer than one year.

In the case of a sales transaction for which the price is set after the date of recognition of a given sale, the revenue is adjusted at the end of each reporting period by any change in the fair value of the relevant trade receivables.
Sales revenue is adjusted for the gain or loss on the settlement of cash flow hedging derivatives, in accordance with the general principle that the portion of gain or loss on a derivative hedging instrument that is determined to be an effective hedge is recognised in the same position of profit or loss in which the gain or loss on the hedged item is recognised at the moment when the hedged item affects profit or loss.

Contract with Franco Nevada

While analysing the impact of IFRS 15 on the consolidated financial statements of the KGHM Polska Miedź S.A. Group, a so-called streaming arrangement was identified, representing one of the sources of financing available to companies operating in the mining sector.
The contract (signed in 2008 between Quadra FNX Mining Ltd. and Franco Nevada) concerns the sale of half of the production of gold, platinum and palladium contained in the ore extracted during the lives of certain parts of deposits of the following mines: Morrison, McCreedy West and Podolsky (CGU Sudbury). Pursuant to the contract, Quadra FNX Mining Ltd. received a prepayment in the amount of CAD 400 million. Moreover, pursuant to the contract, the selling price for one ounce of gold equivalent is the lower of these two amounts: (a) a fixed amount for an ounce, increased by an indexation rate in each year, or (b) the market price of gold. The received prepayment covers the difference between the market price of ore sold and its fixed selling price.

Variable consideration
Pursuant to IFRS 15, if the consideration set forth in an contract contains a variable amount, the Group estimates the amount of the consideration to which it will be entitled in exchange for transferring the promised good or service to the customer, and adds to the transaction price some or all of the amount of the variable consideration solely to the extent that it is highly probable that there will not occur a reversal of a substantial portion of the amount of the previously recognised and accumulated revenue at a moment when uncertainty is removed as to the amount of the consideration.
In the contract with Franco Nevada the total transaction price is variable and depends on the amount of the raw material sold, and this in turn depends on ore extraction in the future throughout the life of the mine (including for example on the size of the deposit). Therefore, if in subsequent reporting periods the Group enacts any changes to the planned amount of ore to be extracted, and consequently to the amount of raw material sold, the transaction price will also be updated.
The Group recognises amounts related to performance obligations as revenue or as a decrease of revenue in the period in which the transaction price was changed.

Significant financing component
In the context of the contract with Franco Nevada, taking into consideration the expected period from the moment when prepayment is received to the moment when the Group transfers the promised good (the life of the mine, or several decades) and the nature of this contract, it was determined that the extension of payments over time provides benefits to the Group due to the financing of deliveries of raw material by the purchaser (Franco Nevada), and as a result the contract includes a significant financing component.
The Group presents the effects of financing (interest costs) separately from revenue from contracts with customers in the statement of comprehensive income. Interest costs are recognised solely to the extent to which the liabilities related to the contract with Franco Nevada were recognised.

Below, we present the impact of implementation of IFRS 9 (disclosure of IFRS 7.42L) and IFRS 15 on the items of the statement of financial position as at 1 January 2018, for which there was a change in classification or measurement.

amounts in PLN millions, unless otherwise stated

Impact of the implementation of IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers

	Applied standard IFRS/IAS	As at 31 December 2017 Carrying amount	Change due to the reclassification	Change due to the revaluation	As at 1 January 2018 Carrying amount	Impact on retained earnings	Impact on other comprehensive income	Impact on equity
Available-for-sale financial assets	IAS 39	673	(673)	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	IFRS 9	-	673	36	709	-	36	36
Retained earnings - accumulated impairment losses on available-for-sale financial assets	IAS 39	(691)	691	-	-	691	-	691
Other reserves from measurement of financial instruments	IFRS 9	-	(691)	-	(691)	-	(691)	(691)
Loans granted	IAS 39/IFRS 9	3 909	(3 906)	-	3	-	-	-
Credit-impaired loans granted at the moment of initial recognition (POCI)	IFRS 9	-	3 889	-	3 889	-	-	-
Loans at fair value through profit or loss	IFRS 9		17		17	-	-	-
Trade receivables	IAS 39/ IFRS 9	1 522	(782)	(17)	723	(17)	-	(17)
Trade receivables measured at fair value through profit or loss	IFRS 9	-	782	16	798	16	-	16
Retained earnings – change in the time value of hedging instruments	IAS 39	(223)	223	-	-	223	-	223
Other reserves from measurement of hedging instruments	IFRS 9	-	(223)	-	(223)	-	(223)	(223)
Other receivables – receivables due to present value of future payments due to financial guarantees	IFRS 9	67	-	33	100	33	-	33
Other liabilities – liability due to financial guarantees	IFRS 9	-	-	37	37	(37)	-	(37)
Other non-current liabilities – liabilities due to Franco Nevada streaming contract	IFRS 15	410	-	(68)	342	68	-	68
Deferred tax on the aforementioned adjustments		-	-	(19)	(19)	(171)	152	(19)
Total impact						**806**	**(726)**	**80**

Impact of the application of IFRS 15 on items of the statement of financial position and the statement of profit or loss as at 30 June 2018

	30 June 2018 per IAS 11, 18	Impact of IFRS 15	30 June 2018 per IFRS 15
Consolidated statement of financial position			
Trade receivables measured at fair value through profit or loss	552	(3)	549
Other non-current liabilities	531	74	605
Other current liabilities	1 142	(104)	1 038
Deferred tax liabilities	461	34	495
Accumulated other comprehensive income	2 091	3	2 094
Retained earnings	14 535	(10)	14 525

amounts in PLN millions, unless otherwise stated

Consolidated statement of profit or loss	from 1 January 2018 to 30 June 2018 per IAS 11, 18	Impact of IFRS 15	from 1 January 2018 to 30 June 2018 per IFRS 15
Revenues from contracts with customers	9 455	(32)	9 423
Other operating income and (costs)	375	(12)	363
Income tax expense	(363)	(10)	(373)

The main reason of changes disclosed in the above table is the recognition of a significant financing component arising from the agreement signed between Quadra FNX Mining Ltd. and Franco Nevada.

Note 1.4.2 The published standard IFRS 16 "Leases", which is not yet in force and was not applied earlier by the Group

Basic information on the standard

Date of implementation and transitional rules
IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 and has been adopted by the European Union. It supersedes the current standard IAS 17, interpretation IFRIC 4 and SIC 15, 27. The Parent Entity will apply IFRS 16 from 1 January 2019.

Main changes introduced by the standard
The new standard introduces a single model for recognising a lease in lessee's accounting books, conforming to the recognition of a finance lease under IAS 17. Pursuant to IFRS 16, an agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation. The essential element differentiating the definition of a lease from IAS 17 and from IFRS 16 is the requirement to have control over the used, specific asset, indicated directly or indirectly in the agreement. Transfer of the right to use takes place when we have an identified asset, with respect to which the lessee has the right to obtain substantially all of the economic benefits from its use, and controls the use of a given asset in a given period of time. If the definition of a "lease" is met, the right to use an asset is recognised alongside a corresponding lease liability, set in the amount of future discounted payments – for the duration of a lease. Expenses related to the use of lease assets, the majority of which were previously recognised in external services costs, will be currently classified as depreciation/amortisation and interest costs. Usufruct rights are depreciated using a straight line method, while lease liabilities are settled using an effective discount rate.

Impact of IFRS 16 on the financial statements

At the moment of preparation of these Financial statements the Group had completed most of the work related to implementation of the new standard IFRS 16. The project to implement IFRS 16 (project), which was commenced in the fourth quarter of 2017, was planned in three stages:
- stage I – analysis of all executed agreements for the purchase of services, regardless of their existing classification, the goal of which was to identify those agreements based on which the Group companies use assets belonging to suppliers; in addition, this stage comprised the analysis of perpetual usufruct rights to land as well as land easements and transmission easements,
- stage II – the evaluation of each agreement identified in stage I in terms of its meeting the criteria to be recognised as a lease pursuant to IFRS 16,
- stage III - implementation of IFRS 16 based on the developed concept.

All agreements were subjected to analysis involving a finance lease, operating lease, rentals, leasing, as well as perpetual usufruct rights to land as well as transmission easements and land easements. Also analysed were transactions involving purchased services (external service costs under operating activities) in terms of any occurrence of use of identified assets.
Under this project the Group carried out appropriate changes in accounting policy and operating procedures. Methods were developed and implemented for the proper identification of lease agreements and for gathering data needed in order to properly account for such transactions.
The Parent Entity decided to apply the standard from 1 January 2019. In accordance with the transition rules described in IFRS 16, the new principles will be applied retrospectively, and the accumulated impact of initial application of the new standard will be recognised in equity as at 1 January 2019. Consequently, comparable data for financial year 2018 will not be restated (i.e. the modified retrospective approach).

Following are the individual adjustments arising from the implementation of IFRS 16.

Description of adjustments

a) Recognition of lease liabilities

Following the adoption of IFRS 16, the Group will recognise lease liabilities related to leases which were previously classified as "operating leases" in accordance with IAS 17 Leases. These liabilities will be measured at the present value of lease payments receivable as at the date of commencement of the application of IFRS 16.
For purposes of disclosure with respect to the impact of implementation of IFRS 16, discounting was applied using the incremental borrowing rate of the Parent Entity as at 30 June 2018.
At their date of initial recognition, lease payments contained in the measurement of lease liabilities comprise the following types of payments for the right to use the underlying asset for the life of the lease:
- fixed lease payments less any lease incentives,
- variable lease payments which are dependent on market indices,
- amounts expected to be payable by the lessee under residual value guarantees,
- the strike price of a purchase option, if it is reasonably certain that the option will be exercised, and
- payment of contractual penalties for terminating the lease, if the lease period reflects that the lessee used the option of terminating the lease.

For the purposes of calculating the discount rate under IFRS 16, the Group assumed that the discount rate should reflect the cost of financing which would be drawn to purchase the object of a given lease. To estimate the amount of the discount rate, the Group considered the following contractual parameters: the type and life of an agreement, the currency applied and the potential margin which would have to be paid to a financial institution to obtain financing.
As at 30 June 2018, the discount rate calculated by the Group was within the following ranges (depending on the life of the agreement):
- for PLN-denominated agreements: from 3.28% to 5.03%
- for EUR-denominated agreements: 1.63%

The Group makes use of expedients with respect to short-term leases (less than 12 months) as well as in the case of leases in respect of which the underlying asset has a low value (less than PLN 20 000) and for which agreements it will not recognise financial liabilities nor any respective right-to-use assets. These types of lease payments will be recognised as costs using the straight-line method during the life of the lease.

b) Recognition of right-to-use assets

Right-to-use assets are measured at cost.
The cost of a right-to-use asset comprises:
- the initial estimate of lease liabilities,
- any lease payments paid at the commencement date or earlier, less any lease incentives receivable,
- initial costs directly incurred by the lessee as a result of entering into a lease agreement,
- estimates of costs which are to be incurred by the lessee as a result of an obligation to disassemble and remove an underlying asset or to carry out renovation/restoration.

c) Application of estimates

The implementation of IFRS 16 requires the making of certain estimates and calculations which effect the measurement of financial lease liabilities and of right-to-use assets. These include among others:
- determining which agreements are subject to IFRS 16,
- determining the life of such agreements (including for agreements with unspecified lives or which may be prolonged),
- determining the interest rates to be applied for the purpose of discounting future cash flows,
- determining depreciation rates.

d) Application of practical expedients

In applying IFRS 16 for the first time, the Group plans to apply the following practical expedients permitted by the standard:
- application of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- operating lease agreements for which the remaining lease term is less than 12 months as at 1 January 2019 are treated as short-term leases,
- the option not to separate lease components from non-lease components for lease agreements comprising all classes of underlying assets with the exception of the class of the machine and device and warehouses, in respect of which the lease and non-lease components are identified,
- exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application, and

- the use of hindsight (i.e. knowledge gained after the fact) in determining the lease term if the agreement contains options to prolong or terminate the lease.

Impact on the statement of financial position

The impact of implementing IFRS 16 on the recognition of additional financial liabilities and respective right-to-use assets was estimated on the basis of agreements in force in the Group as at 30 June 2018 and is as follows:

	Estimated impact 1 January 2019
Right-to-use assets - mining and metallurgical property, plant and equipment	486
Lease liabilities	486

The Parent Entity estimates that the annual cost of short-term lease agreements and annual cost of lease agreements for low-value assets is immaterial.

Part 2 - Information on segments and revenues

Note 2.1 Operating segments

The operating segments identified in the KGHM Polska Miedź S.A. Group reflect the structure of the Group, the manner in which the Group and its individual entities are managed and the regular reporting to the Parent Entity's Management Board.

As a result of the aggregation of operating segments and taking into account the criteria stipulated in IFRS 8, the following reporting segments are currently identified within the KGHM Polska Miedź S.A. Group:

Reporting segment	Operating segments aggregated in a given reporting segment	Indications of similarity of economic characteristics of segments, taken into account in aggregations
KGHM Polska Miedź S.A.	KGHM Polska Miedź S.A.	Not applicable (it is a single operating and reporting segment)
KGHM INTERNATIONAL LTD.	Companies of the KGHM INTERNATIONAL LTD. Group, in which the following mines, deposits or mining areas constitute operating segments: Sudbury Basin, Robinson, Carlota, Franke, DMC and Ajax.	Operating segments within the KGHM INTERNATIONAL LTD. Group are located in North and South America. The Management Board analyses the results of the following operating segments: Sudbury Basin, Robinson, Carlota, Franke, Ajax and other. Moreover, it receives and analyses reports of the whole KGHM INTERNATIONAL LTD. Group. Operating segments are engaged in the exploration and mining of copper, molybdenum, silver, gold and nickel deposits. The operating segments were aggregated based on the similarity of long term margins achieved by individual segments, and the similarity of products, processes and production methods.
Sierra Gorda S.C.M.	Sierra Gorda S.C.M. (joint venture)	Not applicable (it is a single operating and reporting segment)
Other segments	This item includes other Group companies (every individual company is a separate operating segment).	Aggregation was carried out as a result of not meeting the criteria necessitating the identification of a separate additional reporting segment.

The following companies were not included in any of the aforementioned segments:

- Future 1 Sp. z o.o., which acts as a holding company with respect to the KGHM INTERNATIONAL LTD. Group,
- Future 2 Sp. z o.o., Future 3 Sp. z o.o., Future 4 Sp. z o.o., Future 5 Sp. z o.o., Future 6 Sp. z o.o. and Future 7 Sp. z o.o., which operate in the structure related to the establishment of a Tax Group.

These companies do not conduct operating activities which could impact the results achieved by individual segments, and as a result their inclusion could distort the data presented in this part of the consolidated financial statements due to significant settlements with other Group entities.

Each of the segments KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M. have their own Management Boards, which report the results of their business activities to the President of the Management Board of the Parent Entity.

The segment KGHM Polska Miedź S.A. is composed only of the Parent Entity, and the segment Sierra Gorda S.C.M. is composed only of the joint venture Sierra Gorda. Other companies of the KGHM Polska Miedź S.A. Group are presented below by segment: KGHM INTERNATIONAL LTD. and Other segments.

THE SEGMENT KGHM INTERNATIONAL LTD.	
Location	**Company**
The United States of America	Carlota Copper Company, Carlota Holdings Company, DMC Mining Services Corporation, FNX Mining Company USA Inc., Robinson Holdings (USA) Ltd., Robinson Nevada Mining Company, Wendover Bulk Transhipment Company
Chile	Aguas de la Sierra Limitada, Minera Carrizalillo Limitada, KGHM Chile SpA, Quadra FNX Holdings Chile Limitada, Sociedad Contractual Minera Franke
Canada	KGHM INTERNATIONAL LTD., 0899196 B.C. Ltd., Centenario Holdings Ltd., DMC Mining Services Ltd., FNX Mining Company Inc., Franke Holdings Ltd., KGHM AJAX MINING INC., KGHMI HOLDINGS LTD., Quadra FNX Holdings Partnership, Sugarloaf Ranches Ltd.
Mexico	Raise Boring Mining Services S.A. de C.V.
Colombia	DMC Mining Services Colombia SAS
The United Kingdom	DMC Mining Services (UK) Ltd.
Luxembourg	Quadra FNX FFI S.à r.l.

OTHER SEGMENTS	
Type of activity	**Company**
Support of the core business	BIPROMET S.A., CBJ sp. z o.o., Energetyka sp. z o.o., INOVA Spółka z o.o., KGHM CUPRUM sp. z o.o. – CBR, KGHM ZANAM S.A., KGHM Metraco S.A., PeBeKa S.A., POL-MIEDŹ TRANS Sp. z o.o., WPEC w Legnicy S.A.
Sanatorium-healing and hotel services	Interferie Medical SPA Sp. z o.o., INTERFERIE S.A., Uzdrowiska Kłodzkie S.A. - Grupa PGU, Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU, Uzdrowisko Połczyn Grupa PGU S.A., Uzdrowisko Świeradów - Czerniawa Sp. z o.o. – Grupa PGU
Investment funds, financing activities	Fundusz Hotele 01 Sp. z o.o., Fundusz Hotele 01 Sp. z o.o. S.K.A., KGHM TFI S.A., KGHM I FIZAN in liquidation, KGHM IV FIZAN, KGHM V FIZAN, Polska Grupa Uzdrowisk Sp. z o.o.
Other activities	CENTROZŁOM WROCŁAW S.A., CUPRUM Development sp. z o.o., CUPRUM Nieruchomości sp. z o.o., KGHM (SHANGHAI) COPPER TRADING CO., LTD., KGHM Kupfer AG, MERCUS Logistyka sp. z o.o., MIEDZIOWE CENTRUM ZDROWIA S.A., NITROERG S.A., NITROERG SERWIS Sp. z o.o., PeBeKa Canada Inc., PHU "Lubinpex" Sp. z o.o., PMT Linie Kolejowe Sp. z o.o., PMT Linie Kolejowe 2 Sp. z o.o., Staropolanka Sp. z o.o., WMN "ŁABĘDY" S.A., Zagłębie Lubin S.A., OOO ZANAM VOSTOK

The Parent Entity and the KGHM INTERNATIONAL LTD. Group (a subgroup) have a fundamental impact on the assets and the generation of revenues in the KGHM Polska Miedź S.A. Group. The activities of KGHM Polska Miedź S.A. are concentrated on the mining industry in Poland, while those of the KGHM INTERNATIONAL LTD. Group are concentrated on the mining industry in the countries of North and South America. The profile of activities of the majority of the remaining subsidiaries of the KGHM Polska Miedź S.A. Group differs from the main profile of the Parent Entity's activities.

The Parent Entity's Management Board monitors the operating results of individual segments in order to make decisions on allocating the Group's resources and assess the financial results achieved.

Financial data prepared for management reporting purposes is based on the same accounting policies as those applied when preparing the consolidated financial statements of the Group, while the financial data of individual reporting segments constitutes the amounts presented in appropriate financial statements prior to consolidation adjustments at the level of the KGHM Polska Miedź S.A. Group, i.e.:

- The segment KGHM Polska Miedź S.A. – comprises data from the separate financial statements of the Parent Entity prepared in accordance with IFRSs. In the separate financial statements, investments in subsidiaries (including investment in KGHM INTERNATIONAL LTD.) are measured at cost.
- The segment KGHM INTERNATIONAL LTD. – comprises consolidated data of the KGHM INTERNATIONAL LTD. Group prepared in accordance with IFRSs. The involvement in Sierra Gorda S.C.M. is accounted for using the equity method.

- The segment Sierra Gorda S.C.M – comprises the 55% share of assets, liabilities, revenues and costs of this venture presented in the separate financial statements of Sierra Gorda S.C.M. prepared in accordance with IFRSs.
- Other segments – comprises aggregated data of individual subsidiaries after excluding transactions and balances between them.

The Management Board of the Parent Entity assesses a segment's performance based on adjusted EBITDA and the profit or loss for the period.
The Group defines adjusted EBITDA as profit/loss for the period pursuant to IFRS, excluding income tax (current and deferred), finance income and (costs), other operating income and costs, the share of losses of joint ventures accounted for using the equity method, impairment losses on interest in a joint venture, depreciation/amortisation and impairment losses on property, plant and equipment included in the cost of sales, selling costs and administrative expenses. Adjusted EBITDA – as a financial indicator not defined by IFRSs – is not a standardised measure and therefore its method of calculation may vary between entities, and consequently the presentation and calculation of adjusted EBITDA applied by the Group may not be comparable to that applied by other market entities.

Unallocated assets and liabilities concern companies which have not been allocated to any segment. Assets which have not been allocated to the segments comprise cash, trade receivables and deferred tax assets. Liabilities which have not been allocated to the segments comprise trade liabilities and current corporate tax liabilities.

Note 2.2 Financial results of reporting segments

		from 1 January 2018 to 30 June 2018						
						Reconciliation items to consolidated data		
		KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Adjustments*****	Consolidated financial statements
Note 3.3	**Total revenues from contracts with customers, of which:**	**7 189**	**1 298**	**908**	**3 369**	(908)	(2 433)	9 423
	- inter-segment	139	19	-	2 262	-	(2 420)	-
	- external	7 050	1 279	908	1 107	(908)	(13)	9 423
	Revenues from contracts with customers – for sales, for which the amount of revenue was not finally determined at the end of the reporting period (IFRS 15.114)	**588**	**389**	**812**	**-**	**(812)**	**-**	**977**
	Segment result	**987**	**(391)**	**(236)**	**32**	**236**	**(17)**	**611**
	Additional information on significant cost/revenue items of the segment							
	Depreciation/amortisation recognised in profit or loss	(534)	(220)	(256)	(115)	256	5	(864)
	Share of losses of joint ventures accounted for using the equity method	-	(252)	-	-	-	(2)	(254)
		30 June 2018						
	Assets, including:	**32 739**	**8 640**	**8 826**	**5 305**	**(8 826)**	**(10 613)**	**36 071**
	Segment assets	32 739	8 640	8 826	5 305	(8 826)	(10 671)	36 013
	Joint ventures accounted for using the equity method	-	-	-	-	-	6	6
	Assets unallocated to segments	-	-	-	-	-	52	52
	Liabilities, including:	**14 974**	**14 276**	**12 171**	**2 127**	**(12 171)**	**(13 380)**	**17 997**
	Segment liabilities	14 974	14 276	12 171	2 127	(12 171)	(13 426)	17 951
	Liabilities unallocated to segments	-	-	-	-	-	46	46
	Other information	from 1 January 2018 to 30 June 2018						
	Cash expenditures on property, plant and equipment and intangible assets	961	297	307	101	(307)	(85)	1 274
	Production and cost data	from 1 January 2018 to 30 June 2018						
	Payable copper (kt)	227.5	42.6	24.5				
	Molybdenum (million pounds)	-	0.2	7.7				
	Silver (t)	478.4	0.7	6.3				
	TPM (koz t)**	38.4	34.6	9.3				
	C1 cash cost of producing copper in concentrate (USD/lb)***	1.90	1.86	1.16				
	Adjusted EBITDA	**1 700**	**380**	**333**	**152**	**-**	**-**	**2 565**
	EBITDA margin******	**24%**	**29%**	**37%**	**5%**	**-**	**-**	**25%**

* 55% of the Group's share in Sierra Gorda S.C.M.'s financial and production data.
** TPM (Total Precious Metals) – precious metals (gold, platinum, palladium).
*** Unit cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, the minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value.
**** Adjusted EBITDA to revenues from contracts with customers. For the purposes of calculating the Group's EBITDA margin (25%), the consolidated revenues from contracts with customers were increased by revenues from contracts with customers of the segment Sierra Gorda S.C.M. [2 565 / (9 423 + 908) * 100%]
***** Adjustments arise from consolidation eliminations and financial data of companies unallocated to any segment.

Financial results of reporting segments for the comparable period

		from 1 January 2017 to 30 June 2017						
						Reconciliation items to consolidated data		
		KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Adjustments*****	Consolidated financial statements
Note 3.3	**Revenues from contracts with customers, of which:**	**7 701**	**1 181**	**868**	**3 093**	**(868)**	**(2 262)**	**9 713**
	- inter-segment	144	49	-	2 101	-	(2 294)	-
	- external	7 557	1 132	868	992	(868)	32	9 713
	Segment result	**1 310**	**(467)**	**(320)**	**97**	**320**	**114**	**1 054**
	Additional information on significant cost/revenue items of the segment							
	Depreciation/amortisation recognised in profit or loss	(496)	(163)	(198)	(119)	198	6	(772)
	Share of losses of joint ventures accounted for using the equity method	-	(214)	-	-	-	(1)	(215)
		31 December 2017						
	Assets, including:	**30 947**	**7 807**	**8 114**	**5 400**	**(8 114)**	**(10 032)**	**34 122**
	Segment assets	30 947	7 807	8 114	5 400	(8 114)	(10 071)	34 083
	Joint ventures accounted for using the equity method	-	-	-	-	-	8	8
	Assets unallocated to segments	-	-	-	-	-	31	31
	Liabilities, including:	**13 691**	**12 701**	**11 240**	**2 007**	**(11 240)**	**(12 062)**	**16 337**
	Segment liabilities	13 691	12 701	11 240	2 007	(11 240)	(12 204)	16 195
	Liabilities unallocated to segments	-	-	-	-	-	142	142
	Other information	from 1 January 2017 to 30 June 2017						
	Cash expenditures on property, plant and equipment and intangible assets	983	233	282	90	(282)	(98)	1 208
	Production and cost data	from 1 January 2017 to 30 June 2017						
	Payable copper (kt)	264.2	38.7	27.2				
	Molybdenum (million pounds)	-	0.4	13.0				
	Silver (t)	591.8	0.8	7.7				
	TPM (koz t)**	55.4	35.8	**13.5**				
	C1 cash cost of producing copper in concentrate (USD/lb)***	1.33	2.02	**1.81**				
	Adjusted EBITDA	**2 231**	**264**	**195**	**173**	**-**	**-**	**2 863**
	EBITDA margin******	**29%**	**22%**	**22%**	**6%**	**-**	**-**	**27%**

* 55% of the Group's share in Sierra Gorda S.C.M.'s financial and production data.
** TPM (Total Precious Metals) – precious metals (gold, platinum, palladium).
*** Unit cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, the minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value.
**** Adjusted EBITDA to revenues from contracts with customers. For the purposes of calculating the Group's EBITDA margin (27%), the consolidated revenues from contracts with customers were increased by revenues from contracts with customers of the segment Sierra Gorda S.C.M. [2 863 / (9 713 + 868) * 100%]
***** Adjustments arise from consolidation eliminations and financial data of companies unallocated to any segment.
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amounts in PLN millions, unless otherwise stated

Reconciliation of adjusted EBITDA	from 1 January 2018 to 30 June 2018			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments
Profit/(loss) for the period	**987**	**(391)**	**(236)**	**32**
[-] Share of losses of joint ventures accounted for using the equity method	-	(252)	-	-
[-] Current and deferred income tax	(291)	(10)	67	(15)
[-] Depreciation/amortisation recognised in profit or loss	(534)	(220)	(256)	(115)
[-] Other operating income/(costs)	708	124	3	18
[-] Finance income/(costs)	(596)	(413)	(383)	(8)
[=] EBITDA	1 700	380	333	152
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
Adjusted EBITDA	**1 700**	**380**	**333**	**152**

	from 1 January 2018 to 30 June 2018			
Profit/(loss) on sales (EBIT)	**1 166**	**160**	**77**	**37**
[-] Depreciation/amortisation recognised in profit or loss	(534)	(220)	(256)	(115)
[=] EBITDA	1 700	380	333	152
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
[=] Adjusted EBITDA	**1 700**	**380**	**333**	**152**

*55% share of the Group in the financial data of Sierra Gorda S.C.M.

Reconciliation of adjusted EBITDA	from 1 January 2017 to 30 June 2017			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments
Profit/(loss) for the period	**1 310**	**(467)**	**(320)**	**97**
[-] Share of losses of joint ventures accounted for using the equity method	-	(214)	-	-
[-] Current and deferred income tax	(519)	(63)	97	(20)
[-] Depreciation/amortisation recognised in profit or loss	(496)	(163)	(198)	(119)
[-] Other operating income/(costs)	(597)	186	(3)	65
[-] Finance costs	691	(477)	(411)	(2)
[=] EBITDA	2 231	264	195	173
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
Adjusted EBITDA	**2 231**	**264**	**195**	**173**

	from 1 January 2017 to 30 June 2017			
Profit/(loss) on sales (EBIT)	**1 735**	**101**	**(3)**	**54**
[-] Depreciation/amortisation recognised in profit or loss	(496)	(163)	(198)	(119)
[=] EBITDA	2 231	264	195	173
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
[=] Adjusted EBITDA	**2 231**	**264**	**195**	**173**

*55% share of the Group in the financial data of Sierra Gorda S.C.M.

amounts in PLN millions, unless otherwise stated

Note 2.3 Revenues from contracts with customers of the Group – breakdown by products

from 1 January 2018 to 30 June 2018

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data: Elimination of data of the segment Sierra Gorda S.C.M.	Reconciliation items to consolidated data: Consolidation adjustments	Consolidated data
Copper	5 691	845	489	3	(489)	(10)	**6 529**
Silver	930	6	10	-	(10)	-	**936**
Gold	180	95	42	-	(42)	-	**275**
Services	44	282	-	985	-	(731)	**580**
Other	344	70	367	2 381	(367)	(1 692)	**1 103**
TOTAL	**7 189**	**1 298**	**908**	**3 369**	**(908)**	**(2 433)**	9 423

from 1 January 2017 to 30 June 2017

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data: Elimination of data of the segment Sierra Gorda S.C.M.	Reconciliation items to consolidated data: Consolidation adjustments	Consolidated data
Copper	5 773	729	560	4	(560)	(12)	**6 494**
Silver	1 215	11	16	-	(16)	-	**1 226**
Gold	288	80	64	-	(64)	-	**368**
Services	71	231	-	917	-	(676)	**543**
Other	354	130	227	2 172	(227)	(1 574)	**1 082**
TOTAL	**7 701**	**1 181**	**867**	**3 093**	**(867)**	**(2 262)**	**9 713**

* 55% of the Group's share in revenues of Sierra Gorda S.C.M.

amounts in PLN millions, unless otherwise stated

Note 2.4 Revenues from contracts with customers of the Group – geographical breakdown reflecting the location of end clients

	from 1 January 2018 to 30 June 2018							from 1 January 2017 to 30 June 2017
					Reconciliation items to consolidated data			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M.	Consolidation adjustments	Consolidated data	KGHM Polska Miedź S.A. Group
Poland	2 005	-	4	3 227	(4)	(2 432)	**2 801**	2 676
Austria	124	-	-	11	-	-	**135**	136
Bulgaria	7	-	-	6	-	-	**13**	14
Czechia	716	-	-	11	-	-	**727**	762
Denmark	35	-	-	1	-	-	**36**	38
Estonia	10	-	-	1	-	-	**11**	-
Finland	32	-	-	4	-	-	**36**	23
France	375	-	-	1	-	-	**376**	559
Spain	302	-	-	1	-	-	**303**	(4)
Netherlands	-	-	92	-	(92)	-	**-**	-
Germany	1 007	-	-	16	-	-	**1 023**	1 058
Romania	29	-	-	1	-	-	**30**	64
Slovakia	58	-	-	5	-	-	**63**	51
Slovenia	36	-	-	2	-	-	**38**	34
Sweden	23	-	-	12	-	-	**35**	36
Hungary	364	-	-	2	-	-	**366**	350
The United Kingdom	768	76	23	12	(23)	(1)	**855**	979
Italy	220	-	2	4	(2)	-	**224**	171
Bosnia and Hercegovina	15	-	-	-	-	-	**15**	17
Chile	-	8	-	-	-	-	**8**	49
China	582	366	293	-	(293)	-	**948**	1 147
India	-	-	11	-	(11)	-	**-**	-
Japan	-	-	285	-	(285)	-	**-**	-
Canada	-	331	2	-	(2)	-	**331**	357
Korea	-	-	91	-	(91)	-	**-**	5
Russia	-	-	-	15	-	-	**15**	9
The United States of America	76	514	38	3	(38)	-	**593**	663
Switzerland	250	-	-	-	-	-	**250**	375
Turkey	141	-	-	4	-	-	**145**	71
Oman	-	-	28	-	(28)	-	**-**	-
Argentina	-	-	19	-	(19)	-	**-**	-
Mexico	-	-	11	-	(11)	-	**-**	-
Other countries	14	3	9	30	(9)	-	**46**	56
TOTAL	**7 189**	**1 298**	**908**	**3 369**	**(908)**	**(2 433)**	**9 423**	9 713

* 55% of the Group's share in revenues of Sierra Gorda S.C.M.

amounts in PLN millions, unless otherwise stated

Note 2.5 Main customers

In the period from 1 January 2018 to 30 June 2018 and in the comparable period the revenues from no single contractor exceeded 10% of the sales revenue of the Group.

Note 2.6 Non-current assets – geographical breakdown

	Property, plant and equipment, intangible assets and investment properties	
	30 June 2018	31 December 2017
Poland	18 640	18 430
Canada	1 135	1 055
The United States of America	1 006	989
Chile	277	236
TOTAL	**21 058**	**20 710**

The following were also recognised in non-current assets: involvement in joint ventures accounted for using the equity method, loans granted to joint ventures, derivatives, other instruments measured at fair value, other financial and non-financial assets and deferred tax assets.

amounts in PLN millions, unless otherwise stated

Part 3 – Explanatory notes to the condensed consolidated statement of profit or loss

Note 3.1 Expenses by nature

	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Depreciation of property, plant and equipment and amortisation of intangible assets	993	833
Employee benefits expenses	2 580	2 408
Materials and energy	3 379	3 614
External services	1 031	1 049
Minerals extraction tax	900	871
Other taxes and charges	278	261
Other costs	103	114
Total expenses by nature	**9 264**	**9 150**
Cost of merchandise and materials sold (+)	342	293
Change in inventories of finished goods and work in progress (+/-)	(912)	(845)
Cost of manufacturing products for internal use of the Group (-)	(623)	(762)
Total costs of sales, selling costs and administrative expenses, of which:	**8 071**	**7 836**
Cost of sales	7 431	7 215
Selling costs	180	178
Administrative expenses	460	443

Note 3.2 Other operating income and (costs)

	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Measurement and realisation of derivatives	122	231
Interest income calculated using the effective discount rate method	4	N/A*
Exchange differences on assets and liabilities other than borrowings	537	-
Other	102	103
Total other income	**765**	**334**
Measurement and realisation of derivatives	(122)	(157)
Impairment losses on financial instruments	(3)	N/A*
Impairment losses on non-financial assets	(14)	(1)
Exchange differences on assets and liabilities other than borrowings	-	(961)
Provisions recognised	(162)	(13)
Other	(101)	(60)
Total other costs	**(402)**	**(1 192)**
Other operating income and (costs)	**363**	**(858)**

** N/A – not applicable – items which in the first half of 2017 were not measured in accordance with principles arising from the application, from 1 January 2018, of IFRS 9.*

amounts in PLN millions, unless otherwise stated

Note 3.3 Finance income and (costs)

	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Measurement of derivatives	26	-
Exchange differences on borrowings	-	815
Total finance income	**26**	**815**
Interest on borrowings	(52)	(53)
Bank fees and charges on borrowings	(15)	(21)
Exchange differences on borrowings	(533)	-
Measurement of derivatives	-	(27)
Other	(29)	(30)
Total finance costs	**(629)**	**(131)**
Finance income and (costs)	**(603)**	**684**

amounts in PLN millions, unless otherwise stated

Part 4 – Other explanatory notes

Note 4.1 Information on property, plant and equipment and intangible assets

Purchase of property, plant and equipment and intangible assets

	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Purchase of property, plant and equipment	1 089	1 030
Purchase of intangible assets	38	74

Payables due to the purchase of property, plant and equipment and intangible assets

	30 June 2018	31 December 2017
Payables due to the purchase of property, plant and equipment and intangible assets	340	561

Capital commitments not recognised in the consolidated statement of financial position

	30 June 2018	31 December 2017
Purchase of property, plant and equipment	2 981	2 472
Purchase of intangible assets	56	60
Total capital commitments	**3 037**	**2 532**

Note 4.2 Involvement in joint ventures

Joint ventures accounted for using the equity method

	from 1 January 2018 to 30 June 2018		from 1 January 2017 to 31 December 2017	
	Sierra Gorda S.C.M.	Other	Sierra Gorda S.C.M.	Other
As at the beginning of the reporting period	**-**	**8**	**-**	**27**
Acquisition of shares	262	-	461	-
Share of losses of joint ventures accounted for using the equity method, including:	(252)	(2)	(474)	-
share of losses of joint ventures for prior years, recognised in the reporting period	(16)	-	-	-
Liquidation of a joint venture	-	-	-	(19)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(10)	-	13	-
As at the end of the reporting period	**-**	**6**	**-**	**8**

	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Share of the Group (55%) in net losses of Sierra Gorda S.C.M. for the reporting period, of which:	**(236)**	**(525)**
recognised in share of losses of joint ventures for the reporting period	(236)	(474)
not recognised in share of losses of joint ventures for the reporting period	-	(51)

amounts in PLN millions, unless otherwise stated

Unrecognised share of losses of Sierra Gorda S.C.M.

	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 31 December 2017
As at the beginning of the reporting period	**(4 867)**	**(4 816)**
Not recognised share of losses of joint ventures	-	(51)
Share of losses of joint ventures for prior years, recognised in the reporting period	16	-
As at the end of the reporting period	**(4 851)**	**(4 867)**

Loans granted to a joint venture Sierra Gorda S.C.M.

	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 31 December 2017
As at the beginning of the reporting period	**3 889**	**4 313**
Accrued interest	126	319
Exchange differences from the translation of statements of operations with a functional currency other than PLN	301	(743)
As at the end of the reporting period	**4 316**	**3 889**

amounts in PLN millions, unless otherwise stated

Note 4.3 Financial instruments

Categories of financial assets: – as at 30 June 2018 - in accordance with IFRS 9, – as at 31 December 2017 – in accordance with IAS 39.	30 June 2018					31 December 2017				
	At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging instruments	Total	Available-for-sale	At fair value through profit or loss	Loans and financial receivables	Hedging instruments	Total
Non-current	510	49	5 097	297	**5 953**	614	11	4 651	99	**5 375**
Loans granted to joint ventures	-	-	4 316	-	**4 316**	-	-	3 889	-	**3 889**
Derivatives	-	32	-	297	**329**	-	11	-	99	**110**
Other financial instruments measured at fair value	510	17	-	-	**527**	614	-	-	-	**614**
Other financial assets	-	-	781	-	**781**	-	-	762	-	**762**
Current	48	555	1 531	152	**2 286**	59	1	2 314	195	**2 569**
Trade receivables	-	549	673	-	**1 222**	-	-	1 522	-	**1 522**
Derivatives	-	6	-	152	**158**	-	1	-	195	**196**
Cash and cash equivalents	-	-	610	-	**610**	-	-	586	-	**586**
Other financial assets	48	-	248	-	**296**	59	-	206	-	**265**
Total	**558**	**604**	**6 628**	**449**	**8 239**	**673**	**12**	**6 965**	**294**	**7 944**

Categories of financial liabilities: – as at 30 June 2018 - in accordance with IFRS 9, – as at 31 December 2017 – in accordance with IAS 39.	30 June 2018				31 December 2017			
	At fair value through profit or loss	At amortised cost	Hedging instruments	Total	At fair value through profit or loss	At amortised cost	Hedging instruments	Total
Non-current	**133**	**7 670**	**71**	**7 874**	137	6 398	71	**6 606**
Borrowings	-	7 472	-	**7 472**	-	6 191	-	**6 191**
Derivatives	133	-	71	**204**	137	-	71	**208**
Other financial liabilities	-	198	-	**198**	-	207	-	**207**
Current	38	2 628	13	**2 679**	48	2 913	62	**3 023**
Borrowings	-	1 151	-	**1 151**	-	965	-	**965**
Derivatives	38	-	13	**51**	48	-	62	**110**
Trade payables	-	1 394	-	**1 394**	-	1 823	-	**1 823**
Other financial liabilities	-	83	-	**83**	-	125	-	**125**
Total	**171**	**10 298**	**84**	**10 553**	**185**	**9 311**	**133**	**9 629**

amounts in PLN millions, unless otherwise stated

The fair value hierarchy of financial instruments

Classes of financial instruments	30 June 2018 level 1	30 June 2018 level 2	31 December 2017 level 1	31 December 2017 level 2
Loans granted to other entities	-	17	N/A	N/A
Listed shares	466	-	617	-
Unquoted shares	-	92		56
Trade receivables	-	549	-	N/A
Other financial assets	-	-	-	1
Derivatives, including:	-	232	-	(12)
Assets	-	487	-	306
Liabilities	-	(255)	-	(318)

There was no transfer in the Group of financial instruments between individual levels of the fair value hierarchy, in either the reporting or the comparable periods, nor was there any change in the classification of instruments as a result of a change in the purpose or use of these instruments.

Note 4.4 Commodity, currency and interest rate risk management

In managing commodity, currency and interest rate risk, the scale and profile of activities of the Parent Entity and of the mining companies of the KGHM INTERNATIONAL LTD. Group is of the greatest significance for, and has the greatest impact on the results of the KGHM Polska Miedź S.A. Group.

The Parent Entity actively manages market risk by taking actions and making decisions in this regard within the context of the whole KGHM Polska Miedź S.A. Group's global exposure.

The primary technique used by the Group in market risk management are hedging strategies involving derivatives. Natural hedging is also used. The Parent Entity applies hedging transactions, as understood by hedge accounting.

The impact of derivatives and hedging transactions on the items in the statement of profit or loss of the Group and on the items in the statement of comprehensive income is presented below.

Statement of profit or loss	Impact of derivatives and hedging transactions* from 1 January 2018 to 30 June 2018	Impact of derivatives and hedging transactions* from 1 January 2017 to 30 June 2017
Sales revenue	75	4
Other operating and finance income and costs:	26	47
On realisation of derivatives	(56)	3
On measurement of derivatives	82	44
Impact of derivatives on the financial result for the period	**101**	**51**
Statement of comprehensive income in the part concerning other comprehensive income		
Impact of hedging transactions	**(154)**	**213**
Impact of measurement of hedging transactions (effective portion)	(79)	217
Reclassification to sales revenues due to realisation of a hedged item	(75)	(4)
TOTAL COMPREHENSIVE INCOME*	**(53)**	**264**

* The Group decided to implement IFRS 9 standard (including new principles of hedge accounting) as at 1 January 2018 without adjusting comparative data, which means that data concerning 2017 presented in the financial statements for 2018 will not be comparable.

The management of market risk in the Parent Entity, and especially the management of the risk of changes in metals prices, exchange rates and interest rates, should be considered through an analysis of the hedging position together with the position being hedged (hedged position). A hedging position is understood as the Parent Entity's position in derivatives. A hedged position is comprised of highly probable, future cash flows (revenues from the physical sale of products).

In the first half of 2018, copper sales of the Parent Entity amounted to 230 thousand tonnes (net sales of 164 thousand tonnes)[1]. However, the notional amount of copper price hedging strategies settled in the first half of 2018 amounted to 42 thousand tonnes, which represented approx. 18% of the total sales of this metal realised by the Parent Entity and approx. 26% of net sales in this period (in the first half of 2017, 26% and 36% respectively). In the case of currency transactions, approx. 28% of total revenues from copper and silver sales realised by the Parent Entity were hedged in the first half of 2018 (29% - in the first half of 2017).

[1] Copper sales less copper in purchased materials.

amounts in PLN millions, unless otherwise stated

In the first half of 2018 the Parent Entity implemented copper price hedging transactions with a total notional amount of 126 thousand tonnes and a hedging horizon falling from July 2018 to December 2020. This hedging included the complex *seagull* and *collar* structures (Asian options) entered into. In addition, in the first half of 2018 the Parent Entity implemented transactions hedging against a change in the USD/PLN exchange rate with a total notional amount of USD 1 170 million with a hedging horizon falling from April 2018 to June 2020 (of which: transactions hedging revenues of USD 960 million for the period from July 2018 to June 2020). On the currency market, the put options (European options) were purchased and the complex *collar* structures (European options) were entered into. In the first half of 2018, there were no derivative transactions implemented for the silver and interest rate markets. However, in the first half of 2018 the Parent Entity drew a bank loan in the amount of USD 150 million, based on a fixed interest rate and the first instalment, in the amount of USD 65 million, of the loan granted in December 2017 by the European Investment Bank also based on a fixed interest rate, and therefore hedging itself against the interest rate risk. With respect to managing currency risk, which arises from borrowings, the Parent Entity uses natural hedging by borrowing in currencies in which it has revenues. As at 30 June 2018, following their translation to PLN, the bank loans and the investment loan which were drawn in USD amounted to PLN 8 373 million (as at 31 December 2017: PLN 6 935 million).

As a result, as at 30 June 2018, the Parent Entity held a hedging position in derivatives for 210 thousand tonnes of copper (for the period from July 2018 to December 2020), as well as for planned revenues from sales of metals in the amount of USD 1 440 million (for the period from July 2018 to June 2020). Moreover, the Parent Entity held open derivatives transactions on the interest rate market for the years 2018-2020 and bank and other loans with a fixed interest rate.

Some of the Group's Polish companies managed the currency risk related to their core business by opening transactions in derivatives on the currency market. The table of open transactions of Polish companies as at 30 June 2018 is not presented, due to its immateriality for the Group.

The condensed tables of open transactions in derivatives held by the Parent Entity on the copper, currency and interest rate markets are presented below. The hedged notional amounts of transactions on copper and currency markets in the presented periods are allocated evenly on a monthly basis.

COPPER MARKET

		Notional	Option strike price			Average weighted premium	Effective hedge price	Hedge limited to	Participation limited to
			Sold put option	Purchased put option	Sold call option				
	Instrument	[tonnes]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]
2nd half	Seagull	21 000	4 200	5 400	7 200	-230	5 170	4 200	7 200
	Seagull	21 000	4 700	6 200	8 000	-226	5 974	4 700	8 000
	Seagull	12 000	5 000	6 900	9 000	-250	6 650	5 000	9 000
	TOTAL VII-XII 2018	**54 000**							
	Seagull	42 000	4 700	6 200	8 000	-226	5 974	4 700	8 000
	Seagull	24 000	5 000	6 900	9 000	-250	6 650	5 000	9 000
	Collar	12 000		6 800	8 400	-250	6 550		8 400
	Collar	24 000		6 700	8 300	-228	6 472		8 300
	TOTAL 2019	**102 000**							
	Seagull	24 000	5 000	6 900	9 000	-250	6 650	5 000	9 000
	Seagull	4 920	5 000	6 900	8 800	-250	6 650	5 000	8 800
	Seagull	25 080	5 000	6 800	8 700	-220	6 580	5 000	8 700
	TOTAL 2020	**54 000**							

CURRENCY MARKET

	Instrument	Notional [million USD]	Option strike price: Sold put option [USD/PLN]	Option strike price: Purchased put option [USD/PLN]	Option strike price: Sold call option [USD/PLN]	Average weighted premium [PLN per USD 1]	Effective hedge price [USD/PLN]	Hedge limited to [USD/PLN]	Participation limited to [USD/PLN]
2nd half	Seagull	120	3.24	3.75	4.50	-0.02	3.73	3.24	4.50
	Seagull	180	3.24	3.80	4.84	0.01	3.81	3.24	4.84
	Put option	420		3.25		-0.06	3.19		
	TOTAL VII-XII 2018	**720**							
1st half	Seagull	180	3.24	3.80	4.84	0.02	3.82	3.24	4.84
	Collar	180		3.50	4.25	-0.06	3.44		4.25
2nd half	Collar	180		3.50	4.25	-0.07	3.43		4.25
	TOTAL 2019	**540**							
1st half	Collar	180		3.50	4.25	-0.08	3.42		4.25
	TOTAL I-VI 2020	**180**							

INTEREST RATE MARKET

Instrument	Notional [million USD]	Option strike price [LIBOR 3M]	Average weighted premium [USD per USD 1 million hedged]	Average weighted premium [%]	Effective hedge price [LIBOR 3M]
Purchase of interest rate cap options **QUARTERLY IN 2018**	900	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options **QUARTERLY IN 2019**	1 000	2.50%	381	0.15%	2.65%
Purchase of interest rate cap options **QUARTERLY IN 2020**	1 000	2.50%	381	0.15%	2.65%

The table below presents the fair value of derivative instruments of the Group (as at the end of the reporting period).

Derivatives	30 June 2018	31 December 2017
Non-current assets	329	110
Current assets	158	196
Non-current liabilities	(204)	(208)
Current liabilities	(51)	(110)
Net fair value of open derivatives	**232**	**(12)**

The table below presents detailed data on derivative transactions designated as hedging, held by the Parent Entity as at 30 June 2018.

Open hedging derivatives	Notional Copper [t] Currency [USD million]	Avg. weighted price/exchange rate [USD/t] [USD/PLN]	Maturity/ settlement period from	Maturity/ settlement period to	Period of profit/loss impact from	Period of profit/loss impact to
Copper – seagulls*	174 000	6 451 – 8 372	Jul 18	Dec 20	Aug 18	Jan 21
Copper – collars	36 000	6 733 – 8 333	Jan 19	Dec 19	Feb 19	Jan 20
Currency – collars	1 020	3.64 - 4.49	Jul 18	Jun 20	Jul 18	Jun 20
Currency – purchased put options	420	3.25	Jul 18	Dec 18	Jul 18	Dec 18

* The table presents only the transactions designated as hedging.

amounts in PLN millions, unless otherwise stated

The fair value of open derivatives of the Group broken down into hedging transactions and trade transactions (including embedded derivatives) is presented in the tables below.

Hedging derivatives – open items as at the end of the reporting period

Type of derivative	30 June 2018					31 December 2017				
	Financial assets		Financial liabilities		Net total	Financial assets		Financial liabilities		Net total
	Current	Non-current	Current	Non-current		Current	Non-current	Current	Non-current	
Derivatives – Commodity contracts - Copper										
Options – seagull*	55	216	(9)	(49)	213	6	33	(62)	(71)	(94)
Options - collar	24	43	(2)	(8)	57	-	-	-	-	-
Derivatives – Currency contracts										
Purchased put options	-	-	-	-	-	-	-	-	-	-
Options - collar	73	38	(2)	(14)	95	189	66	-	-	255
TOTAL HEDGING INSTRUMENTS	**152**	**297**	**(13)**	**(71)**	**365**	**195**	**99**	**(62)**	**(71)**	**161**

* The table presents only the transactions designated as hedging.

Trade derivatives – open items as at the end of the reporting period

Type of derivative	30 June 2018					31 December 2017				
	Financial assets		Financial liabilities		Net total	Financial assets		Financial liabilities		Net total
	Current	Non-current	Current	Non-current		Current	Non-current	Current	Non-current	
Derivatives – Commodity contracts - Copper										
Options – seagull*	-	-	(1)	(26)	(27)	-	-	-	(2)	(2)
Derivatives – Currency contracts										
Collar options and forward/swap USD and EUR	1	-	(1)	(1)	(1)	1	1	-	-	2
Sold USD put options	-	-	(2)	-	(2)	-	-	(12)	(11)	(23)
Derivatives – interest rate										
Purchased interest rate cap options	5	32	-	-	37	-	10	-	-	10
Embedded derivatives										
Acid and water supply contracts	-	-	(34)	(106)	(140)	-	-	(36)	(124)	(160)
TOTAL TRADE INSTRUMENTS	**6**	**32**	**(38)**	**(133)**	**(133)**	**1**	**11**	**(48)**	**(137)**	**(173)**

* The table presents only the transactions not designated as hedging.

amounts in PLN millions, unless otherwise stated

All entities with which derivative transactions (excluding embedded derivatives) were entered into by the Group operate in the financial sector.

The following table presents the structure of ratings of the financial institutions with which the Group had derivatives transactions, representing an exposure to credit risk* (as at the end of the reporting period).

Rating level		30 June 2018	31 December 2017
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	100%	100%

** Weighed by positive fair value of open and unsettled derivatives*.

Taking into consideration the fair value of open derivative transactions entered into by the Group and the fair value of unsettled derivatives, as at 30 June 2018 the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 20%, i.e. PLN 75 million (as at 31 December 2017: 47%, i.e. PLN 124 million).

In order to reduce cash flows and at the same time to limit credit risk, the Parent Entity carries out net settlements (based on framework agreements entered into with its customers) to the level of the positive balance of fair value measurement of transactions in derivatives with a given counterparty. Moreover, the resulting credit risk is continuously monitored by the review of the credit ratings and is limited by striving to diversify the portfolio while implementing hedging strategies.

Despite the concentration of credit risk associated with derivatives' transactions, the Parent Entity has determined that, due to its cooperation only with renowned financial institutions, as well as continuous monitoring of their ratings, it is not materially exposed to credit risk as a result of transactions concluded with them.

Note 4.5 Liquidity risk and capital management

Capital management policy

Capital management in the Group is aimed at securing funds for development and maintaining the appropriate level of liquidity. In accordance with market practice, the Group monitors its capital, among others on the basis of ratios presented in the table below:

Ratios	Calculations	30 June 2018	31 December 2017
Net Debt/EBITDA	relation of net debt to EBITDA	**1.7**	**1.3**
Net Debt	borrowings and finance lease liabilities less free cash and short term investments with a maturity of up to 1 year	8 019	6 577
EBITDA*	profit on sales plus depreciation/amortisation recognised in profit or loss and impairment losses on non-current assets	4 708	5 144
Equity ratio	relation of equity less intangible assets to total assets	**0.5**	**0.5**
Equity	assets of the Group after deducting all of its liabilities	18 074	17 785
Intangible assets	identifiable non-cash items of assets without a physical form	1 764	1 656
Equity less intangible assets		16 310	16 129
Total assets	sum of non-current and current assets	36 071	34 122

**adjusted EBITDA for the period of 12 months ended on the last day of the reporting period, excluding the EBITDA of the joint venture Sierra Gorda S.C.M.*

amounts in PLN millions, unless otherwise stated

In the management of capital, the Group also pays attention to adjusted operating profit for the period of 12 months ended on the last day of the reporting period, which is the basis for calculating the financial covenants and which is comprised of the following items:

	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 31 December 2017
Profit on sales	1 352	3 811
Interest income on loans granted to joint ventures	126	319
Other operating income and (costs)	363	(2 377)
Adjusted operating profit*	**1 841**	**1 753**

** presented amount does not include allowances for impairment of loans granted to joint ventures*

In order to maintain financial liquidity and the creditworthiness to acquire external financing at an optimum cost, the Group aims to maintain, in the long term, the equity ratio at a level of not less than 0.5, and the ratio of Net Debt/EBITDA at a level of up to 2.0.

Liquidity management policy

The management of financial liquidity in the Group is performed based on the "Financial Liquidity Management Policy in the Group". The basic principles resulting from the Policy are:

- assuring the stable and effective financing of the Group's activities,
- continuous monitoring of the debt level of the Group,
- effective management of working capital, and
- co-ordinating by the Parent Entity of financial liquidity management processes in Group companies.

Under the process of liquidity management, the Group uses instruments which enhance its effectiveness. One of the primary instruments used by the Group is the cash pooling service, managed both locally in PLN, USD and EUR and internationally in USD.

Net debt changes

Liabilities due to borrowing	As at 31 December 2017	Cash flows	Accrued interest	Exchange differences	Other changes	As at 30 June 2018
Bank loans	5 179	616	96	408	4	6 303
Loans	1 967	168	29	134	-	2 298
Leases	10	(4)	-	-	16	22
Total debt	**7 156**	**780**	**125**	**542**	**20**	**8 623**
Free cash and cash equivalents	579	25	-	-	-	604
Net debt	**6 577**					**8 019**

amounts in PLN millions, unless otherwise stated

Details on borrowings

As at 30 June 2018, the Group had open credit lines and loans with a total balance of available financing in the amount of PLN 16 422 million, out of which PLN 8 619* million had been drawn.

The structure of financing sources is presented below.

	30 June 2018		31 December 2017
	Amount available	Amount drawn	Amount drawn
1. Unsecured, revolving **syndicated credit facility** in the amount of USD 2 500 million, obtained on the basis of a financing agreement concluded with a syndicate of banks in 2014 with a maturity of 9 July 2021. The funds acquired through this credit facility are used to finance general corporate purposes, including expenditures related to the continued advancement of investment projects.	9 360	4 495*	3 483*
2. **Loans,** including **Investment loans** granted to the Parent Entity by the **European Investment Bank** for the total amount of PLN 2 900 million. 2.1 The investment loan in the amount of PLN 2 000 million with a financing period of 12 years, drawn in three instalments and with the payback periods expiring on 30 October 2026, 30 August 2028 and 23 May 2029 and utilised to the maximum available amount. The funds acquired through this loan are used to finance the Parent Entity's investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings storage facility. 2.2 The investment loan in the amount of PLN 900 million granted by the European investment Bank with a financing period of 12 years, and the availability of instalments for a period of 22 months from the date of signing. In the first half of 2018, the Parent Entity drew an instalment with the payback period expiring on 28 December 2030. The funds acquired through this loan will be used to finance the Parent Entity's projects related to development and replacement at various stages of the production process.	2 906	2 298	1 967
3. **Bilateral bank loans** in the total amount of PLN 4 156 million, used for financing working capital and which are the supporting tool for the management of financial liquidity and for financing investment projects of the Group.	4 156	1 826	1 717
TOTAL	**16 422**	**8 619***	**7 167***

** Presented amounts do not include the preparation fee paid in the amount of PLN 18 million (as at 31 December 2017: PLN 21 million), which decreases financial liabilities due to bank loans.*

The aforementioned sources fully cover the current, medium and long-term liquidity needs of the Group.

Cash and cash equivalents

	30 June 2018	31 December 2017
Cash in bank accounts	341	314
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits	260	263
Other cash	9	9
Total	**610**	**586**

Contingent liabilities due to guarantees granted

Guarantees and letters of credit are an essential financial liquidity management tool of the Group, thanks to which the Group's companies do not have to use their cash in order to secure their liabilities towards other entities.

amounts in PLN millions, unless otherwise stated

As at 30 June 2018, the Group held contingent liabilities due to guarantees and letters of credit granted in the total amount of PLN 2 658 million and due to promissory notes in the amount of PLN 182 million.

The most significant items are contingent liabilities of the Parent Entity aimed at securing the following obligations:

Sierra Gorda S.C.M. – securing the performance of concluded agreements in the amount of PLN 1 839 million:

- a letter of credit of PLN 515 million granted as security for the proper performance of a long-term contract for the supply of electricity,
- PLN 156 million as corporate guarantees set as security on the payment due to concluded lease agreements*,
- PLN 494 million as corporate guarantees securing repayment of short-term working capital facilities,
- PLN 674 million as a corporate guarantee securing repayment of a specified part of payment to guarantees set by Sumitomo Metal Mining Co. Ltd. and Sumitomo Corporation, securing repayment of a corporate credit drawn by the joint venture Sierra Gorda S.C.M.,

Other entities:

- securing the restoration costs of the Robinson mine, the Podolsky mine and the Victoria project and obligations related to proper execution of concluded agreements in the amount of PLN 409 million,
- securing the proper execution by DMC Mining Services (UK) Ltd. and DMC Mining Services Ltd. of the contract for shaft sinking under the project conducted in the United Kingdom in the amount of PLN 187 million,
- securing the proper execution of future environmental obligations of the Parent Entity related to the obligation to restore terrain, following the conclusion of operations of the Żelazny Most tailings storage facility in the total amount of PLN 320 million (a bank guarantee of PLN 160 million and own promissory note of PLN 160 million).

Based on information held, at the end of the reporting period the Group assessed the probability of payments resulting from contingent liabilities as low.

*As part of the analysis of the impact of IFRS 9 on the financial statements with respect to the financial guarantees granted to Sierra Gorda, in the Group's opinion it is necessary to recognise the aforementioned guarantees in the accounting books as per paragraph 4.2.1 point c of IFRS 9.

Note 4.6 Employee benefits liabilities

	30 June 2018	31 December 2017
Jubilee awards	471	400
Retirement and disability benefits	402	341
Coal equivalent	1 551	1 394
Other benefits	76	69
Total liabilities due to future employee benefits programs	**2 500**	**2 204**
Remuneration liabilities	142	235
Accruals due to employee benefits	506	466
Employee liabilities	**648**	**701**
Total employee benefits liabilities, including:	**3 148**	**2 905**
- non-current liabilities	2 328	2 063
- current liabilities	820	842

Note 4.7 Provisions for decommissioning costs of mines and other technological facilities

	30 June 2018	31 December 2017
Provisions at the beginning of the reporting period	**1 360**	**1 500**
Changes in estimates recognised in fixed assets	23	41
Other	44	(181)
Provisions at the end of the reporting period including:	**1 427**	**1 360**
- non-current provisions	1 418	1 351
- current provisions	9	9

amounts in PLN millions, unless otherwise stated

Note 4.8 Related party transactions

Operating income from related entities	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Revenues from sales of products, merchandise and materials to a joint venture	13	49
Interest income on a loan granted to a joint venture	126	161
Revenues from other transactions with a joint venture	19	22
Revenues from other transactions with other related parties	7	11
	165	**243**

Purchases from related entities	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Purchase of services, merchandise and materials from other related parties	16	15
Other purchase transactions from other related parties	1	1
	17	**16**

Trade and other receivables from related parties	30 June 2018	31 December 2017
From the joint venture Sierra Gorda S.C.M. – loans	4 316	3 889
From the joint venture Sierra Gorda S.C.M. – other	511	461
From other related parties	10	3
	4 837	**4 353**

Trade and other payables towards related parties	30 June 2018	31 December 2017
Towards joint ventures	35	13
Towards other related parties	10	1
	45	**14**

Pursuant to IAS 24, the Group is obliged to disclose unsettled balances, including payables towards the Polish Government and entities controlled or jointly controlled by the Polish Government, or over which the Polish Government has significant influence.

As at 30 June 2018, balances of unsettled payables concerned the mining usufruct agreements necessary to conduct principal operating activities. Pursuant to these agreements, the Parent Entity is obliged to pay for the right to mine the copper and rock salt deposits. As at 30 June 2018, the balance of liabilities due to these agreements amounted to PLN 182 million (as at 31 December 2017: PLN 202 million). In the reporting period, the variable part of the fee for the right to mine, recognised in costs in the amount of PLN 15 million, was set as the equivalent of the 30% of the mining fee due for the first half of 2018 (correspondingly, in the period from 1 January to 30 June 2017: PLN 16 million).

In the current and comparable periods, no other individual transactions were identified which would be considered as significant in terms of unusual scope and amount.

The remaining transactions, which were collectively significant, between the Group and the Polish Government and with entities controlled or jointly controlled by the Polish Government, or over which the government has significant influence, were within the scope of normal, daily economic operations, carried out at arm's length. These transactions concerned the following:

- the purchase of goods to meet the needs of current operating activities. In the period from 1 January to 30 June 2018, the turnover from these transactions amounted to PLN 552 million (from 1 January to 30 June 2017: PLN 414 million), and, as at 30 June 2018, the unsettled balance of liabilities from these transactions amounted to PLN 158 million (as at 31 December 2017: PLN 107 million),

- sales to Polish State Treasury Companies. In the period from 1 January to 30 June 2018, the turnover from these sales amounted to PLN 26 million (from 1 January to 30 June 2017: PLN 38 million), and, as at 30 June 2018, the unsettled balance of receivables from these transactions amounted to PLN 8 million (as at 31 December 2017: PLN 7 million).

Remuneration of the Supervisory Board of the Parent Entity (in PLN thousands)	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	853	1 029

Remuneration of the Management Board of the Parent Entity (in PLN thousands)	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Remuneration during the term of a member of the Management Board's mandate	1 647	3 981
Benefits due to termination of employment	814	1 834
Total	**2 461**	**5 815**

Remuneration of other key managers (in PLN thousands)	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Salaries and other current employee benefits	1 596	2 023

Based on the definition of key management personnel according to IAS 24 and based on an analysis of the rights and scope of responsibilities of managers of the Group arising from corporate documents and from management contracts, the members of the Board of Directors of KGHM INTERNATIONAL LTD. and the President of the Management Board of KGHM INTERNATIONAL LTD. were recognised as other key managers of the Group.

Note 4.9 Assets and liabilities not recognised in the statement of financial position

The value of contingent assets and liabilities and other liabilities not recognised in the statement of financial position were determined based on estimates.

		30 June 2018	31 December 2017
	Contingent assets	**598**	**529**
	Guarantees received	259	215
	Promissory notes receivables	137	121
	Other	202	193
	Contingent liabilities	**3 065**	**2 798**
Note 4.5	Guarantees	2 658	2 325
Note 4.5	Promissory note liability	182	173
	Liabilities due to implementation of projects and inventions	21	117
	Other	204	183
	Other liabilities not recognised in the statement of financial position	**328**	**143**
	Liabilities towards local government entities due to expansion of the tailings storage facility	116	117
	Liabilities due to operating leases	212	26

Note 4.10 Other adjustments in the statement of cash flows

	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Loss on the sales of property, plant and equipment and intangible assets	5	11
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging instruments	(21)	(4)
Other	9	(32)
Total	**(7)**	**(25)**

amounts in PLN millions, unless otherwise stated

Note 4.11 Changes in working capital

	Inventories	Trade receivables	Trade payables	Working capital
As at 1 January 2018	(4 562)	(1 521)	1 995	**(4 088)**
As at 30 June 2018	(5 568)	(1 458)	1 561	**(5 465)**
Change in the statement of financial position	**(1 006)**	**63**	**(434)**	**(1 377)**
Exchange differences from the translation of statements of operations with a functional currency other than PLN	34	18	(13)	**39**
Depreciation recognised in inventories	125	-	-	**125**
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	177	**177**
Other	-	-	(4)	**(4)**
Adjustments	159	18	160	**337**
Change in the statement of cash flows	**(847)**	**81**	**(274)**	**(1 040)**

	Inventories	Trade receivables	Trade payables	Working capital
As at 1 January 2017	(3 497)	(1 292)	1 613	**(3 176)**
As at 30 June 2017	(4 512)	(1 097)	1 781	**(3 828)**
Change in the statement of financial position	**(1 015)**	**195**	**168**	**(652)**
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(46)	(39)	21	**(64)**
Depreciation recognised in inventories	55	-	-	**55**
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	128	**128**
Other	-	-	(4)	**(4)**
Adjustments	9	(39)	145	**115**
Change in the statement of cash flows	**(1 006)**	**156**	**313**	**(537)**

Part 5 – Additional information to the consolidated half-year report

Note 5.1 Effects of changes in the organisational structure of the KGHM Polska Miedź S.A. Group

There were no significant changes in the Group's structure in the first half of 2018.

Note 5.2 Seasonal or cyclical activities

The Group is not affected by seasonal or cyclical activities.

Note 5.3 Information on the issuance, redemption and repayment of debt and equity securities

There was no issuance, redemption or repayment of debt and equity securities in the Group in the first half of 2018.

Note 5.4 Information related to a paid (declared) dividend, total and per share

In accordance with Resolution No. 10/2018 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 6 July 2018 regarding the appropriation of the profit for financial year 2017, the entirety of the profit was transferred to the Parent Entity's reserve capital.

In accordance with Resolution No. 7/2017 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 21 June 2017 regarding the payout of a dividend from prior years' profits and setting the dividend date as well as the dividend payment dates, the amount of PLN 200 million was allocated as a dividend, representing PLN 1.00 per share. The dividend date (the date on which the right to dividend is set) was set on 14 July 2017. Moreover, it was decided that the dividend will be paid in two instalments: on 17 August 2017 – the amount of PLN 100 million (representing PLN 0.50 per share) and on 16 November 2017 – the amount of PLN 100 million (representing PLN 0.50 per share).

All shares of the Parent Entity are ordinary shares.

Note 5.5 Significant proceedings in progress in a court, in appropriate body for arbitration proceedings or in a body of public administration with respect to the liabilities or receivables of KGHM Polska Miedź S.A. or a subsidiary

Claim dated 26 September 2007. Plaintiffs (14 natural persons) filed a claim against KGHM Polska Miedź S.A. (the Company) with the Regional Court in Legnica for the payment of royalties for the use by the Company of invention project no. 1/97/KGHM called „Sposób zwiększenia zdolności produkcyjnej wydziałów elektrorafinacji Huty Miedzi" (Method for increasing the production capacity of the electrorefining sections of the Metallurgical Plants) for the 8th period of the project's application, together with interest due. The amount of the claim (principal amount) was set by the Inventors in the claim in the amount of PLN 42 million (principal amount excluding interest and court costs), with interest as at 30 June 2018 of PLN 53 million. In the response to the claim, KGHM Polska Miedź S.A. requested the dismissal of the claim in its entirety and filed a counter claim for the payment of undue royalties paid for the 6th and 7th periods of application of invention project no. 1/97/KGHM, together with interest due, also invoking the right of mutual set-off of claims. The amount of the claim (principal amount) in the counterclaim was set by the Company in the amount of PLN 25 million. In accordance with the Company's position, the counterclaim is justified. The Company in this regard paid the authors of the project royalties for a longer period of application of the project than anticipated in the initial contract entered into by the parties on advancing the invention project, based on an annex to the contract, extending the period of payment of royalties, whose validity the Company is questioning. Moreover, the Company is questioning the „rationalisation" nature of the solutions, as well as whether they were in fact used in their entirety, and also their completeness and suitability for use in the form supplied by the Plaintiffs as well as the means of calculating the economic effects of this solution, which were the basis for paying the royalties.

Detailed information on the recognition in financial statements is presented in the commentary to note 3.7 of this report's condensed financial statements of KGHM Polska Miedź S.A.

Note 5.6 Subsequent events after the reporting period

Changes in the Supervisory Board of KGHM Polska Miedź S.A.

On 6 July 2018, the Ordinary General Meeting of KGHM Polska Miedź S.A. appointed the 10th term Supervisory Board of KGHM Polska Miedź S.A. in the following composition:

- Leszek Banaszak,
- Jarosław Janas,
- Andrzej Kisielewicz,
- Janusz Marcin Kowalski,
- Bartosz Piechota,
- Marek Pietrzak,
- Agnieszka Winnik – Kalemba,
- Józef Czyczerski (elected by the employees of the KGHM Polska Miedź S.A. Group),
- Ireneusz Pasis (elected by the employees of the KGHM Polska Miedź S.A. Group),
- Bogusław Szarek (elected by the employees of the KGHM Polska Miedź S.A. Group).

Part 6 – Quarterly financial information of the Group

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		from 1 April 2018 to 30 June 2018	from 1 April 2017 to 30 June 2017	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
	Revenues from contracts with customers, including:	5 157	4 802	9 423	9 713
	from sales, for which the amount of revenue was not finally determined at the end of the reporting period (IFRS 15.114)	414	N/A*	977	N/A*
Note 6.1	Cost of sales	(4 113)	(3 667)	(7 431)	(7 215)
	Gross profit	**1 044**	**1 135**	**1 992**	**2 498**
Note 6.1	Selling costs and administrative expenses	(351)	(332)	(640)	(621)
	Profit on sales	**693**	**803**	**1 352**	**1 877**
	Share of losses of joint ventures accounted for using the equity method	(254)	(215)	(254)	(215)
	Interest income on loans granted to joint ventures using the effective discount rate method	45	79	126	161
	Profit or loss on involvement in joint ventures	(209)	(136)	(128)	(54)
Note 6.2	Other operating income and (costs), including:	554	(432)	363	(858)
	interest income calculated using the effective discount rate method	2	N/A*	4	N/A*
Note 6.3	Finance income and (costs)	(715)	383	(603)	684
	Profit before income tax	**323**	**618**	**984**	**1 649**
	Income tax expense	(151)	(274)	(373)	(595)
	PROFIT FOR THE PERIOD	**172**	**344**	**611**	**1 054**
	profit for the period attributable to:				
	Shareholders of the Parent Entity	171	341	610	1 051
	Non-controlling interest	1	3	1	3
	Weighted average number of ordinary shares (million)	**200**	**200**	**200**	**200**
	Basic and diluted earnings per share (in PLN)	**0.86**	**1.71**	**3.05**	**5.26**

** N/A – not applicable – items in which the following did not occur in the first half of 2017: measurement in accordance with principles arising from the application, from 1 January 2018, of IFRS 9, and the disclosure requirement of IFRS 15.*

amounts in PLN millions, unless otherwise stated

Explanatory notes to the condensed consolidated statement of profit or loss

Note 6.1 Expenses by nature

	from 1 April 2018 to 30 June 2018	from 1 April 2017 to 30 June 2017	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Depreciation of property, plant and equipment and amortisation of intangible assets	576	428	993	833
Employee benefits expenses	1 357	1 235	2 580	2 408
Materials and energy	1 558	1 844	3 379	3 614
External services	522	594	1 031	1 049
Minerals extraction tax	466	405	900	871
Other taxes and charges	138	125	278	261
Other costs	51	62	103	114
Total expenses by nature	**4 668**	**4 693**	**9 264**	**9 150**
Cost of merchandise and materials sold (+)	179	133	342	293
Change in inventories of finished goods and work in progress (+/-)	(76)	(314)	(912)	(845)
Cost of manufacturing products for internal use of the Group (-)	(307)	(513)	(623)	(762)
Total costs of sales, selling costs and administrative expenses, of which:	**4 464**	**3 999**	**8 071**	**7 836**
Cost of sales	4 113	3 667	7 431	7 215
Selling costs	98	92	180	178
Administrative expenses	253	240	460	443

Note 6.2 Other operating income and (costs)

	from 1 April 2018 to 30 June 2018	from 1 April 2017 to 30 June 2017	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Measurement and realisation of derivatives	64	174	122	231
Exchange differences on assets and liabilities other than borrowings	720	298	537	-
Interest income calculated using the effective discount rate method	2	N/A*	4	N/A*
Other	49	44	102	103
Total other income	**835**	**516**	**765**	**334**
Measurement and realisation of derivatives	(62)	(170)	(122)	(157)
Impairment losses on financial instruments	(1)	N/A*	(3)	N/A*
Impairment losses on non-financial assets	(4)	(1)	(14)	(1)
Exchange differences on assets and liabilities other than borrowings	-	(756)	-	(961)
Provisions recognised	(158)	(2)	(162)	(13)
Other	(56)	(19)	(101)	(60)
Total other costs	**(281)**	**(948)**	**(402)**	**(1 192)**
Other operating income and (costs)	**554**	**(432)**	**363**	**(858)**

** N/A – not applicable – items which in 2017 were not measured in accordance with principles arising from the application, from 1 January 2018, of IFRS 9.*

amounts in PLN millions, unless otherwise stated

Note 6.3 Finance income and (costs)

	from 1 April 2018 to 30 June 2018	from 1 April 2017 to 30 June 2017	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Exchange differences on borrowings	-	443	-	815
Measurement of derivatives	11	-	26	-
Total finance income	**11**	**443**	**26**	**815**
Interest on borrowings	(27)	(21)	(52)	(53)
Bank fees and charges on borrowings	(8)	(11)	(15)	(21)
Exchange differences on borrowings	(682)	-	(533)	-
Measurement of derivatives	-	(14)	-	(27)
Other	(9)	(14)	(29)	(30)
Total finance costs	**(726)**	**(60)**	**(629)**	**(131)**
Finance income and (costs)	**(715)**	**383**	**(603)**	**684**

CONDENSED FINANCIAL STATEMENTS OF KGHM POLSKA MIEDŹ S.A.

Lubin, August 2018

Condensed financial statements of KGHM Polska Miedź S.A.

CONDENSED STATEMENT OF PROFIT OR LOSS

		from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Note 2.1	Revenues from contracts with customers, including:	7 189	7 701
	from sales, for which the amount of revenue was not finally determined at the end of the reporting period (IFRS 15. 114)	588	N/A*
Note 2.2	Cost of sales	(5 605)	(5 571)
	Gross profit	**1 584**	**2 130**
Note 2.2	Selling costs and administrative expenses	(418)	(395)
	Profit on sales	**1 166**	**1 735**
Note 2.3	Other operating income and (costs), including:	708	(597)
	interest income calculated using the effective discount rate method	125	N/A*
	reversal /(recognition) of impairment losses on financial instruments and (recognition) of impairment losses on purchased or originated credit-impaired (POCI) assets	143	N/A*
Note 2.4	Finance income and (costs)	(596)	691
	Profit before income tax	**1 278**	**1 829**
	Income tax expense	(291)	(519)
	PROFIT FOR THE PERIOD	**987**	**1 310**
	Weighted average number of ordinary shares (million)	**200**	**200**
	Basic and diluted earnings per share (in PLN)	**4.94**	**6.55**

** N/A – not applicable – items in which the following did not occur in the first half of 2017: measurement in accordance with principles arising from the application, from 1 January 2018, of IFRS 9, and the disclosure requirement of IFRS 15.*

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Profit for the period	**987**	**1 310**
Measurement of hedging instruments net of the tax effect	57	173
Measurement of available-for-sale financial assets net of the tax effect	N/A*	110
Other comprehensive income, which will be reclassified to profit or loss	**57**	**283**
Measurement of equity financial instruments at fair value net of the tax effect	(113)	N/A*
Actuarial losses net of the tax effect	(189)	(143)
Other comprehensive income, which will not be reclassified to profit or loss	**(302)**	**(143)**
Total other comprehensive net income	**(245)**	**140**
TOTAL COMPREHENSIVE INCOME	**742**	**1 450**

** N/A – not applicable – items which do not occur due to the change in classification, from 1 January 2018, of equity financial instruments in accordance with IFRS 9. Listed shares measured at fair value and unquoted shares measured at cost were in the category of available –for-sale financial assets.*

amounts in PLN millions, unless otherwise stated

CONDENSED STATEMENT OF CASH FLOWS

		from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
	Cash flow from operating activities		
	Profit before income tax	1 278	1 829
	Depreciation/amortisation recognised in profit or loss	534	496
	Interest on investment activities	(119)	(180)
	Interest and other costs of borrowings	73	76
	Dividends income	(239)	(4)
	Fair value gains on financial assets measured at fair value through profit or loss	(41)	N/A*
	Impairment losses on non-current assets	810	1
	Reversal of impairment losses on non-current assets	(949)	-
	Exchange differences, of which:	162	41
	from investing activities and cash	(369)	852
	from financing activities	531	(811)
	Change in provisions	207	26
	Change in other receivables and liabilities	(162)	(112)
	Change in assets/liabilities due to derivatives	(137)	(81)
Note 3.9	Other adjustments	(4)	37
	Exclusions of income and costs, total	135	300
	Income tax paid	(332)	(684)
Note 3.8	Changes in working capital	(713)	(645)
	Net cash generated from operating activities	**368**	**800**
	Cash flow from investing activities		
	Expenditures on mining and metallurgical assets	(942)	(974)
	Expenditures on other property, plant and equipment and intangible assets	(19)	(9)
	Loans granted	(269)	(219)
	Other expenses	(53)	(50)
	Total expenses	(1 283)	(1 252)
	Dividends received	101	4
	Other proceeds	25	22
	Proceeds	126	26
	Net cash used in investing activities	**(1 157)**	**(1 226)**
	Cash flow from financing activities		
	Proceeds from borrowings	2 044	1 437
	Proceeds from cash pool	-	227
	Total proceeds	2 044	1 664
	Expenses due to cash pool	(40)	-
	Repayments of borrowings	(1 146)	(1 507)
	Interest and other costs of borrowings	(66)	(70)
	Total expenses	(1 252)	(1 577)
	Net cash generated from financing activities	**792**	**87**
	TOTAL NET CASH FLOW	**3**	**(339)**
	Exchange gains/(losses) on cash and cash equivalents	12	(25)
	Cash and cash equivalents at the beginning of the period	234	482
	Cash and cash equivalents at the end of the period	**249**	**118**

** N/A – not applicable – items which in the first half of 2017 were not measured in accordance with principles arising from the application, from 1 January 2018, of IFRS 9.The item concerns loans measured at amortised cost in 2017.*

amounts in PLN millions, unless otherwise stated

CONDENSED STATEMENT OF FINANCIAL POSITION

		30 June 2018	31 December 2017
	ASSETS		
	Mining and metallurgical property, plant and equipment	15 554	15 355
	Mining and metallurgical intangible assets	550	507
	Mining and metallurgical property, plant and equipment and intangible assets	16 104	15 862
	Other property, plant and equipment	69	75
	Other intangible assets	34	34
	Other property, plant and equipment and intangible assets	103	109
	Investments in subsidiaries and joint ventures	3 013	3 013
	Loans granted, including:	5 580	4 972
	measured at fair value	1 434	N/A*
	measured at amortised cost	4 146	4 972
	Derivatives	328	109
	Other financial instruments measured at fair value	508	613
	Other financial assets	365	337
Note 3.2	Financial instruments, total	6 781	6 031
	Deferred tax assets	140	31
	Other non-financial assets	22	25
	Non-current assets	**26 163**	**25 071**
	Inventories	4 627	3 857
Note 3.2	Trade receivables, including:	683	1 034
	trade receivables measured at fair value	408	N/A*
	Tax assets	166	214
Note 3.2	Derivatives	158	195
	Other financial assets	532	288
	Other assets	161	54
Note 3.2	Cash and cash equivalents	249	234
	Current assets	**6 576**	**5 876**
		32 739	**30 947**
	EQUITY AND LIABILITIES		
	Share capital	2 000	2 000
	Other reserves from measurement of financial instruments	(518)	142
	Accumulated other comprehensive income	(537)	(348)
	Retained earnings	16 820	15 462
	Equity	**17 765**	**17 256**
Note 3.3	Borrowings	7 343	6 085
Note 3.2	Derivatives	97	84
Note 3.4	Employee benefits liabilities	2 139	1 879
Note 3.5	Provisions for decommissioning costs of mines and other technological facilities	844	797
	Other liabilities	196	207
	Non-current liabilities	10 619	9 052
Note 3.3	Borrowings	1 112	923
Note 3.2	Cash pool liabilities	120	160
Note 3.2	Derivatives	16	74
Note 3.2	Trade payables	1 145	1 719
Note 3.4	Employee benefits liabilities	614	649
	Tax liabilities	593	416
	Provisions for liabilities and other charges	207	64
	Other liabilities	548	634
	Current liabilities	4 355	4 639
	Non-current and current liabilities	**14 974**	**13 691**
		32 739	**30 947**

** N/A – not applicable – items which in 2017 were not measured in accordance with principles arising from the application, from 1 January 2018, of IFRS 9.*

amounts in PLN millions, unless otherwise stated

CONDENSED STATEMENT OF CHANGES IN EQUITY

	Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings	Total equity
As at 1 January 2017	**2 000**	**(196)**	**(243)**	**14 339**	**15 900**
Dividend	-	-	-	(200)	**(200)**
Profit for the period	-	-	-	1 310	**1 310**
Other comprehensive income	-	283	(143)	-	**140**
Total comprehensive income	-	283	(143)	1 310	**1 450**
As at 30 June 2017	**2 000**	**87**	**(386)**	**15 449**	**17 150**
As at 31 December 2017	**2 000**	**142**	**(348)**	**15 462**	**17 256**
Change in accounting policies – application of IFRS 9	**-**	**(604)**	**-**	**371**	**(233)**
As at 1 January 2018	**2 000**	**(462)**	**(348)**	**15 833**	**17 023**
Profit for the period	-	-	-	987	**987**
Other comprehensive income	-	(56)	(189)	-	**(245)**
Total comprehensive income	-	(56)	(189)	987	**742**
As at 30 June 2018	**2 000**	**(518)**	**(537)**	**16 820**	**17 765**

amounts in PLN millions, unless otherwise stated

Part 1 – General information

Note 1.1 Impact of the application of new and amended standards on the Company's accounting policy and on the Company's separate financial statements.

IFRS 9 Financial Instruments

The Company did not make early implementation of IFRS 9 and applied the requirements of IFRS 9 retrospectively for periods beginning on or after 1 January 2018. In accordance with the possibility provided by the standard, the Company decided against the restatement of comparative data. Changes in the measurement of assets and financial liabilities, as at the date of initial application of the standard, were recognised in retained earnings. Implementation of IFRS 9 resulted in a change in accounting policy with respect to the recognition, classification and measurement of financial assets, the measurement of financial liabilities, losses due to the impairment of financial assets and hedge accounting.

The selected elements of accounting policy with respect to IFRS 9 are presented in part 1, note 1.4.1 of this report's consolidated financial statements.

The following table summarises the impact of IFRS 9 on the change in the classification and measurement of the Company's financial instruments as at 1 January 2018.

(IFRS 7. 42I, 42J, 42O):

	Classification per IAS 39	Classification per IFRS 9	Carrying amount per IAS 39	Carrying amount per IFRS 9	Reference to explanations below the table
Financial assets			**31 December 2017**	**1 January 2018**	
Available-for-sale financial assets (equity instruments)	Available for sale	Fair value through other comprehensive income	613	648	(a)
Loans granted	Loans and receivables	Fair value through profit or loss	1 210	1 277	(b)
Loans granted	Loans and receivables	Amortised cost	3 771	3 386	(c)
Trade receivables - trade receivables subject to factoring arrangements	Loans and receivables	Fair value through profit or loss	196	196	(d)
Trade receivables – trade receivables priced upon M+ formula	Loans and receivables	Fair value through profit or loss	446	462	(e)
Other receivables - receivables due to the present value of future payments respecting financial guarantees	Loans and receivables	Amortised cost	67	100	(f)
Financial liabilities					
Other liabilities - liabilities due to financial guarantees	Financial liabilities measured at amortised cost	Initially recognised fair value, increased by the transaction costs and reversals of the initial discount to the measurement date and decreased by the amount of revenues recognised in profit or loss	-	37	(f)

The comments below concern the table summarising the impact of IFRS 9 on the change in classification and measurement of the Company's financial instruments as at 1 January 2018.

a) This item is comprised of equity instruments not held for trading, in accordance with IAS 39 classified as available-for-sale, which were measured at fair value (listed) and at cost (unquoted) by the Company.

amounts in PLN millions, unless otherwise stated

Because these instruments were not purchased in order to be traded, and due to the above, by the Company's decision, these assets will be measured at fair value through other comprehensive income at the moment of transition, without the possibility of later transfer of gains or losses on these instruments to the profit or loss. These equity instruments are presented in the financial statements in the item "Other financial instruments measured at fair value".

b) This item is comprised of loans granted to subsidiaries which did not pass the SPPI test, because in the structure of financing the target recipient of funds, at the last stage, debt is changed into capital (the amount of capital is material) pursuant to the methodology of classification of financial instruments. Due to the above, these assets are measured at fair value through profit or loss. These financial instruments are presented in the financial statements in the item "Loans granted measured at fair value".

c) This item is comprised of loans granted to subsidiaries and others, which met two conditions: they are in a business model whose objective is achieved by collecting contractual cash flows due to holding financial assets and passed the SPPI test. They are presented in the financial statements in the item "Loans granted measured at amortised cost".

d) This item is comprised of trade receivables subject to factoring agreements, which were classified to the business model – held for sale (Model 3) and therefore are measured at fair value through profit or loss. These trade receivables are presented in the financial statements in the item "Trade receivables measured at fair value".

e) This item is comprised of trade receivables priced upon M+ formula, which did not pass the SPPI test. Failure to pass the test arises from the embedded derivative – the M+ formula. These receivables are measured at fair value through profit or loss. These trade receivables are presented in the financial statements in the item "Trade receivables measured at fair value",

f) This item is comprised of guarantees granted to Sierra Gorda to secure its obligations arising from lease contracts and short-term bank loans. Receivables due to guarantees (passed SPPI test, assets held to acquire contractual cash flows) are measured at amortised cost and are recognised at the present value of future payments and then corrected by the unwinding of the discount effect and the impairment due to the expected credit losses in correspondence with the liability. The results of the measurement of financial guarantees are presented in the financial statements in the following manner: for receivables, in the item "Other financial assets", while the liabilities are presented in the item "Other liabilities".

With the exception of the aforementioned items of other financial assets and liabilities, there were no changes arising from changes in classification or changes in measurement of financial instruments.

The following table presents a reconciliation of **impairment allowances** estimated in accordance with IAS 39 as at 31 December 2017 with the amount of impairment allowances estimated in accordance with IFRS 9 as at 1 January 2018. Changes in impairment allowances estimated in accordance with IFRS 9 arise from a change in the classification of financial assets between the categories of financial assets measured at amortised cost and at fair value, as well as from the remeasurement of impairment allowances reflecting the requirements of the model of expected credit losses (IFRS 7. 42P).

Category of assets	Amount of allowance per IAS 39 as at 31 December 2017	Change due to change in classification	Change due to change in measurement	Amount of allowance per IFRS 9 as at 1 January 2018
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Loans granted	2 630	(1 843)	385	1 172
Total	**2 630**	**(1 843)**	**385**	**1 172**
Available-for-sale assets (IAS 39) / Financial assets at fair value through other comprehensive income (IFRS 9)				
Shares	568	(568)	-	-
Total	**568**	**(568)**	**-**	**-**

Below, we present the impact of implementation of IFRS 9 on the items of the statement of financial position as at 1 January 2018, for which there was a change in classification or measurement.

amounts in PLN millions, unless otherwise stated

Impact of the implementation of IFRS 9 Financial Instruments

	Applied standard IFRS/IAS	As at 31 December 2017 Carrying amount	Change due to the reclassification	Change due to the revaluation	As at 1 January 2018 Carrying amount	Impact on retained earnings	Impact on other comprehensive income	Impact on equity
Available-for-sale financial assets	IAS 39	613	(613)	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	IFRS 9	-	613	35	648	-	35	35
Retained earnings - accumulated impairment losses on available-for-sale financial assets	IAS 39	(568)	568	-	-	568	-	568
Other reserves from measurement of financial instruments	IFRS 9	-	(568)	-	(568)	-	(568)	(568)
Loans granted	IAS 39/IFRS 9	4 981	(1 291)	(385)	3 305	(385)	-	(385)
Credit-impaired loans granted, at the moment of initial recognition (POCI)	IFRS 9	-	81	-	81	-	-	-
Loans at fair value through profit or loss	IFRS 9	-	1 210	67	1 277	67	-	67
Trade receivables	IAS 39/IFRS 9	1 034	(642)	-	392	-	-	-
Trade receivables at fair value through profit or loss	IFRS 9	-	642	16	658	16	-	16
Retained earnings – change in the time value of hedging instruments	IAS 39	(223)	223	-	-	223	-	223
Other reserves from measurement of hedging instruments	IFRS 9	-	(223)	-	(223)	-	(223)	(223)
Other receivables – receivables due to present value of future payments due to financial guarantees	IFRS 9	67	-	33	100	33	-	33
Other liabilities – liability due to financial guarantees	IFRS 9	-	-	37	37	(37)	-	(37)
Deferred tax on the aforementioned adjustments		-	-	38	38	(114)	152	38
Total impact						**371**	**(604)**	**(233)**

IFRS 15 Revenue from contracts with customers

The selected elements of accounting policy with respect to IFRS 15 were presented in part 1, note 1.4.1 of this report's consolidated financial statements. KGHM Polska Miedź S.A. applied IFRS 15 retrospectively, pursuant to paragraph C3 (b).

Pursuant to IFRS 15.63, the Company applies a practical expedient and did not adjust the promised amount of consideration for the effects of a significant financing component. The implementation of IFRS 15 did not have an impact on the amounts presented in the Company's financial statements. In order to improve the usefulness of the information provided to users of the financial statements, the Company widened the scope of disclosures and presented the revenues from sales transactions, for which the amount of revenue was not finally determined (among others, priced upon the M+ formula) at the end of the reporting period, in the interim statement of profit or loss.

IFRS 16 "Leases"

Basic information on the standard

Date of implementation and transitional rules
IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 and has been adopted by the European Union. It supersedes the current standard IAS 17, interpretation IFRIC 4 and SIC 15 and 27. The Company will apply IFRS 16 from 1 January 2019.

Main changes introduced by the standard
The new standard introduces a single model for recognising a lease in lessee's accounting books, conforming to the recognition of a finance lease under IAS 17. Pursuant to IFRS 16, an agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation. The essential element differentiating the definition of a lease from IAS 17 and from IFRS 16 is the requirement to have control over the used, specific asset, indicated directly or indirectly in the agreement. Transfer of the right to use takes place when we have an identified asset, with respect to which the lessee has the right to obtain substantially all of the economic benefits from its use, and controls the use of a given asset in a given period of time. If the definition of a "lease" is met, the right to use an asset is recognised alongside a corresponding lease liability, set in the amount of future discounted payments – for the duration of a lease. Expenses related to the use of lease assets, the majority of which were previously recognised in external services costs, will be currently classified as depreciation/amortisation and interest costs. Usufruct rights are depreciated using a straight line method, while lease liabilities are settled using an effective discount rate.

Impact of IFRS 16 on the financial statements

At the moment of preparation of these Financial statements the Company had completed most of the work related to implementation of the new standard IFRS 16. In the fourth quarter of 2017 the Company commenced the project to implement IFRS 16 (project), which was planned in three stages:
- stage I – analysis of all executed agreements for the purchase of services, regardless of their existing classification, the goal of which was to identify those agreements based on which the Company uses assets belonging to suppliers; in addition, this stage comprised the analysis of perpetual usufruct rights to land as well as land easements and transmission easements,
- stage II – the evaluation of each agreement identified in stage I in terms of its meeting the criteria to be recognised as a lease pursuant to IFRS 16,
- stage III - implementation of IFRS 16 based on the developed concept.

All agreements were subjected to analysis involving a finance lease, operating lease, rentals, leasing, as well as perpetual usufruct rights to land as well as transmission easements and land easements. Also analysed were transactions involving purchased services (external service costs under operating activities) in terms of any occurrence of use of identified assets.

Under this project the Company carried out appropriate changes in accounting policy and operating procedures. Methods were developed and implemented for the proper identification of lease agreements and for gathering data needed in order to properly account for such transactions. Moreover, the Company is currently working to implement appropriate changes in the Company's IT systems to ensure they are properly adapted for the collection and processing of appropriate data.

The Company decided to apply the standard from 1 January 2019. In accordance with the transition rules described in IFRS 16, the new principles will be applied retrospectively, and the accumulated impact of initial application of the new standard will be recognised in equity as at 1 January 2019. Consequently, comparable data for financial year 2018 will not be restated (i.e. the modified retrospective approach).

Following are the individual adjustments arising from the implementation of IFRS 16.

Description of adjustments

a) Recognition of lease liabilities

Following the adoption of IFRS 16, the Company will recognise lease liabilities related to leases which were previously classified as "operating leases" in accordance with IAS 17 Leases. These liabilities will be measured at the present value of lease payments receivable as at the date of commencement of the application of IFRS 16. For purposes of disclosure with respect to the impact of implementation of IFRS 16, discounting was applied using the incremental borrowing rate of the Company as at 30 June 2018.

At their date of initial recognition, lease payments contained in the measurement of lease liabilities comprise the following types of payments for the right to use the underlying asset for the life of the lease:

- fixed lease payments less any lease incentives,
- variable lease payments which are dependent on market indices,
- amounts expected to be payable by the lessee under residual value guarantees,
- the strike price of a purchase option, if it is reasonably certain that the option will be exercised, and
- payment of contractual penalties for terminating the lease, if the lease period reflects that the lessee used the option of terminating the lease.

For the purposes of calculating the discount rate under IFRS 16, the Company assumed that the discount rate should reflect the cost of financing which would be drawn to purchase the object of a given lease. To estimate the amount of the discount rate, the Company considered the following contractual parameters: the type and life of an agreement, the currency applied and the potential margin which would have to be paid to a financial institution to obtain financing.

As at 30 June 2018, the discount rate calculated by the Company was within the following ranges (depending on the life of the agreement):

- for PLN-denominated agreements: from 3.28% to 5.03%
- for EUR-denominated agreements: 1.63%

The Company makes use of expedients with respect to short-term leases (less than 12 months) as well as in the case of leases in respect of which the underlying asset has a low value (less than PLN 20 000) and for which agreements the Company will not recognise financial liabilities nor any respective right-to-use assets. These types of lease payments will be recognised as costs using the straight-line method during the life of the lease.

b) Recognition of right-to-use assets

Right-to-use assets are measured at cost.

The cost of a right-to-use asset comprises:

- the initial estimate of lease liabilities,
- any lease payments paid at the commencement date or earlier, less any lease incentives receivable,
- initial costs directly incurred by the lessee as a result of entering into a lease agreement,
- estimates of costs which are to be incurred by the lessee as a result of an obligation to disassemble and remove an underlying asset or to carry out renovation/restoration.

c) Application of estimates

The implementation of IFRS 16 requires the making of certain estimates and calculations which effect the measurement of financial lease liabilities and of right-to-use assets. These include among others:

- determining which agreements are subject to IFRS 16,
- determining the life of such agreements (including for agreements with unspecified lives or which may be prolonged),
- determining the interest rates to be applied for the purpose of discounting future cash flows,
- determining depreciation rates.

d) Application of practical expedients

In applying IFRS 16 for the first time, the Company plans to apply the following practical expedients permitted by the standard:

- application of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- operating lease agreements for which the remaining lease term is less than 12 months as at 1 January 2019 are treated as short-term leases,
- the option not to separate lease components from non-lease components for lease agreements comprising all classes of underlying assets with the exception of the class of the machine and device and warehouses, in respect of which the lease and non-lease components are identified,
- exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight (i.e. knowledge gained after the fact) in determining the lease term if the agreement contains options to prolong or terminate the lease.

amounts in PLN millions, unless otherwise stated

Impact on the statement of financial position

The impact of implementing IFRS 16 on the recognition of additional financial liabilities and respective right-to-use assets was estimated on the basis of agreements in force in the Company as at 30 June 2018 and is as follows:

	Estimated impact as at 1 January 2019
Right-to-use assets - Mining and metallurgical property, plant and equipment	378
Lease liabilities	378

The Company estimates that the annual cost of short-term lease agreements and annual cost of lease agreements for low-value assets is immaterial.

Impact on financial ratios

Given the fact that the Company recognises nearly all of its lease agreements in its statement of financial position, the implementation of IFRS 16 by the Company will affect its balance sheet ratios, including the debt to equity ratio. Moreover, as a result of the implementation of IFRS 16 there may be a change in profit ratios (such as operating profit, EBITDA), as well as in cash flow from operating activities. The Company has analysed the impact of all of these changes in terms of compliance with covenants contained in credit agreements to which the Company is a party, and did not identify any risk of breaches in these covenants.

Note 1.2 Risk management

Commodity, currency and interest risk management in KGHM Polska Miedź S.A. was presented in part 4, note 4.4 of this report's consolidated financial statements.

amounts in PLN millions, unless otherwise stated

Part 2 – Explanatory notes to the condensed statement of profit or loss

Note 2.1 Revenues from contracts with customers – geographical breakdown reflecting the location of end clients

	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Europe		
Poland	2 005	1 985
Germany	1 007	1 041
The United Kingdom	768	970
Czechia	716	752
France	375	558
Hungary	364	347
Spain	302	(4)
Switzerland	250	375
Italy	220	166
Austria	124	126
Slovakia	58	45
Slovenia	36	34
Denmark	35	37
Finland	32	19
Romania	29	63
Sweden	23	24
Bosnia and Herzegovina	15	17
Other countries (dispersed sales)	22	14
North and South America		
The United States of America	76	215
Asia		
China	582	829
Turkey	141	70
Taiwan	-	10
Japan	2	1
Singapore	-	3
Other countries (dispersed sales)	5	3
Africa	2	1
TOTAL	**7 189**	**7 701**

amounts in PLN millions, unless otherwise stated

Note 2.2 Expenses by nature

	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Depreciation of property, plant and equipment and amortisation of intangible assets	580	531
Employee benefits expenses	1 684	1 564
Materials and energy, including:	2 549	2 788
Purchased metal-bearing materials	1 477	1 759
Electrical and other energy	372	357
External services, including:	788	713
Transport	103	108
Repairs, maintenance and servicing	239	200
Mine preparatory work	242	207
Minerals extraction tax	900	871
Other taxes and charges	218	208
Other costs	44	60
Total expenses by nature	**6 763**	**6 735**
Cost of merchandise and materials sold (+)	92	107
Change in inventories of finished goods and work in progress (+/-)	(772)	(816)
Cost of manufacturing products for internal use (-)	(60)	(60)
Total costs of sales, selling costs and administrative expenses, of which:	**6 023**	**5 966**
Cost of sales	5 605	5 571
Selling costs	52	56
Administrative expenses	366	339

amounts in PLN millions, unless otherwise stated

Note 2.3 Other operating income and (costs)

	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Measurement and realisation of derivatives	91	225
Interest on loans granted and other financial receivables	126	184
Fees and charges on re-invoicing of costs of bank guarantees securing payments of liabilities	28	23
Reversal of impairment losses on financial instruments, including:	950	N/A*
Reversal of allowances for impairment of loans due to restructuring of intra-group financing	778	N/A*
Reversal of allowances for impairment of loans measured at amortised cost	171	N/A*
Gains on changes in fair value of financial assets measured at fair value through profit or loss	160	N/A*
Exchange differences on assets and liabilities other than borrowings	327	-
Dividends income	239	4
Other	44	31
Total other income	**1 965**	**467**
Measurement and realisation of derivatives	(119)	(157)
Losses due to initial recognition of POCI loans due to restructuring of intra-group financing	(763)	N/A*
Losses due to fair value changes of financial assets measured at fair value through profit or loss	(119)	N/A*
Allowances for impairment of loans	(44)	N/A*
Exchange differences on assets and liabilities other than borrowings	-	(835)
Provisions recognised	(149)	(10)
Other	(63)	(62)
Total other costs	**(1 257)**	**(1 064)**
Other operating income and (costs)	**708**	**(597)**

** N/A – not applicable – items which in the first half of 2017 were not measured in accordance with principles arising from the application, from 1 January 2018, of IFRS 9.*

Note 2.4 Finance income and (costs)

	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Exchange differences on borrowings	-	812
Measurement of derivatives	26	-
Total finance income	**26**	**812**
Interest on borrowings	(58)	(58)
Bank fees and charges on borrowings	(12)	(14)
Exchange differences on borrowings	(531)	-
Measurement of derivatives	-	(27)
Unwinding of the discount	(21)	(22)
Total finance costs	**(622)**	**(121)**
Finance income and (costs)	**(596)**	**691**

amounts in PLN millions, unless otherwise stated

Part 3 – Other explanatory notes

Note 3.1 Information on property, plant and equipment and intangible assets

Purchase of property, plant and equipment and intangible assets

	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Purchase of property, plant and equipment	741	741
Purchase of intangible assets	13	39

Payables due to the purchase of property, plant and equipment and intangible assets

	30 June 2018	31 December 2017
Payables due to the purchase of property, plant and equipment and intangible assets	498	778

Capital commitments related to property, plant and equipment and intangible assets, not recognised in the statement of financial position

	30 June 2018	31 December 2017
Capital commitments due to the purchase of:		
property, plant and equipment	5 095	4 779
intangible assets	70	75
Total capital commitments	**5 165**	**4 854**

amounts in PLN millions, unless otherwise stated

Note 3.2 Financial instruments

Categories of financial assets: – as at 30 June 2018 - in accordance with IFRS 9, – as at 31 December 2017 – in accordance with IAS 39.	30 June 2018 At fair value through other comprehensive income	30 June 2018 At fair value through profit or loss	30 June 2018 At amortised cost	30 June 2018 Hedging instruments	30 June 2018 Total	31 December 2017 Available-for-sale	31 December 2017 At fair value through profit or loss	31 December 2017 Loans and financial receivables	31 December 2017 Hedging instruments	31 December 2017 Total
Non-current	508	1 465	4 511	297	**6 781**	613	10	5 309	99	**6 031**
Loans granted	-	1 434	4 146	-	**5 580**	-	-	4 972	-	**4 972**
Derivatives	-	31	-	297	**328**	-	10	-	99	**109**
Other financial instruments measured at fair value	508	-	-	-	**508**	613	-	-	-	**613**
Other financial assets	-	-	365	-	**365**	-	-	337	-	**337**
Current	-	413	1 056	153	**1 622**	-	-	1 556	195	**1 751**
Trade receivables	-	408	275	-	**683**	-	-	1 034	-	**1 034**
Derivatives	-	5	-	153	**158**	-	-	-	195	**195**
Cash and cash equivalents	-	-	249	-	**249**	-	-	234	-	**234**
Other financial assets	-	-	532	-	**532**	-	-	288	-	**288**
Total	**508**	**1 878**	**5 567**	**450**	**8 403**	**613**	**10**	**6 865**	**294**	**7 782**

Categories of financial liabilities: – as at 30 June 2018 - in accordance with IFRS 9, – as at 31 December 2017 – in accordance with IAS 39.	30 June 2018 At fair value through profit or loss	30 June 2018 At amortised cost	30 June 2018 Hedging instruments	30 June 2018 Total	31 December 2017 At fair value through profit or loss	31 December 2017 At amortised cost	31 December 2017 Hedging instruments	31 December 2017 Total
Non-current	**25**	**7 522**	**72**	**7 619**	13	6 274	71	**6 358**
Borrowings	-	7 343	-	**7 343**	-	6 085	-	**6 085**
Derivatives	25	-	72	**97**	13	-	71	**84**
Other financial liabilities	-	179	-	**179**	-	189	-	**189**
Current	3	2 418	13	**2 434**	12	2 915	62	**2 989**
Borrowings	-	1 112	-	**1 112**	-	923	-	**923**
Cash pool liabilities	-	120	-	**120**	-	160	-	**160**
Derivatives	3	-	13	**16**	12	-	62	**74**
Trade payables	-	1 145	-	**1 145**	-	1 719	-	**1 719**
Other financial liabilities	-	41	-	**41**	-	113	-	**113**
Total	**28**	**9 940**	**85**	**10 053**	**25**	**9 189**	**133**	**9 347**

amounts in PLN millions, unless otherwise stated

The fair value hierarchy of financial instruments

Classes of financial instruments	30 June 2018 level 1	30 June 2018 level 2	31 December 2017 level 1	31 December 2017 level 2
Loans granted	-	1 434	N/A	N/A
Listed shares	418	-	558	-
Unquoted shares	-	90		56
Trade receivables	-	408	-	N/A
Other financial assets	-	-	-	1
Derivatives, of which:	-	373	-	146
Assets	-	486	-	304
Liabilities	-	(113)	-	(158)

There was no transfer of financial instruments between individual levels of the fair value hierarchy within the Company, in either the reporting or the comparable periods, nor was there any change in the classification of instruments as a result of a change in the purpose or use of these instruments.

Note 3.3 Net debt

	30 June 2018	31 December 2017
Total debt – borrowings and cash pool	**8 575**	**7 168**
Free cash and cash equivalents	247	231
Net debt	**8 328**	**6 937**

Note 3.4 Employee benefits liabilities

	30 June 2018	31 December 2017
Jubilee bonuses	374	303
Retirement and disability benefits	345	286
Coal equivalent	1 551	1 394
Other benefits	10	7
Total liabilities due to future employee benefits programs	**2 280**	**1 990**
Remuneration liabilities	87	175
Accruals due to employee benefits	386	363
Employee benefits	**473**	**538**
Total employee benefits liabilities, including:	**2 753**	**2 528**
- non-current liabilities	2 139	1 879
- current liabilities	614	649

amounts in PLN millions, unless otherwise stated

Note 3.5 Provisions for decommissioning costs of mines and other technological facilities

	30 June 2018	31 December 2017
Provisions as at the beginning of the reporting period	804	770
Changes in estimates recognised in fixed assets	40	30
Other	7	4
Provisions as at the end of the reporting period, including:	**851**	**804**
- non-current provisions	844	797
- current provisions	7	7

Note 3.6 Related party transactions

Operating income from related parties	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
From subsidiaries	448	353
From joint ventures	13	13
Total	**461**	**366**

In the period from 1 January to 30 June 2018, KGHM Polska Miedź S.A. recognised dividends from subsidiaries in other operating income - in the amount of PLN 239 million (from 1 January to 30 June 2017: PLN 4 million).

Purchases from related entities	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Purchase of products, merchandise and materials and other purchases from subsidiaries	2 287	2 099
Total	**2 287**	**2 099**

Trade and other receivables from related parties	30 June 2018	31 December 2017
From subsidiaries, including:	6 076	5 486
loans granted	5 580	4 979
From joint ventures	104	67
Total	**6 180**	**5 553**

Payables towards related parties	30 June 2018	31 December 2017
Towards subsidiaries	561	684
Towards joint ventures	22	-
Total	**583**	**684**

Remuneration of key managers of KGHM Polska Miedź S.A., i.e. members of the Management Board and members of the Supervisory Board of KGHM Polska Miedź S.A. were presented in part 4, note 4.8 of the consolidated financial statements.

Pursuant to IAS 24, the Company is obliged to disclose unsettled balances, including payables towards the Polish Government and entities controlled or jointly controlled by the Polish Government, or over which the Polish Government has significant influence.

As at 30 June 2018, balances of unsettled payables concerned the mining usufruct agreements necessary to conduct principal operating activities. Pursuant to these agreements, the Company is obliged to pay for the right to mine the copper and rock salt deposits. As at 30 June 2018, the balance of liabilities due to these agreements amounted to PLN 182 million (as at 31 December 2017: PLN 202 million). In the reporting period, the variable part of the fee for the right to mine, recognised in costs in the amount of PLN 15 million, was set as the equivalent of the 30% of the mining fee due for the first half of 2018 (correspondingly, in the period from 1 January to 30 June 2017: PLN 16 million).

In the current and comparable periods, no other individual transactions were identified which would be considered as significant in terms of unusual scope and amount.

The remaining transactions, which were collectively significant, between the Company and the Polish Government and with entities controlled or jointly controlled by the Polish Government, or over which the Polish Government has significant influence, were within the scope of normal, daily economic operations, carried out at arm's length.

These transactions concerned the following:

- the purchase of goods to meet the needs of current operating activities. In the period from 1 January to 30 June 2018, the turnover from these transactions amounted to PLN 414 million (from 1 January to 30 June 2017: PLN 375 million), and, as at 30 June 2018, the unsettled balance of liabilities from these transactions amounted to PLN 121 million (as at 31 December 2017: PLN 118 million),

amounts in PLN millions, unless otherwise stated

- sales to Polish State Treasury Companies. In the period from 1 January to 30 June 2018, the turnover from these sales amounted to PLN 17 million (from 1 January to 30 June 2017: PLN 32 million), and, as at 30 June 2018, the unsettled balance of receivables from these transactions amounted to PLN 5 million (as at 31 December 2017: PLN 5 million).

Note 3.7 Assets and liabilities not recognised in the statement of financial position

The value of contingent assets and liabilities and other liabilities not recognised in the statement of financial position were determined based on estimates.

	30 June 2018	31 December 2017
Contingent assets	**579**	**490**
Guarantees received	173	150
Promissory notes receivables	238	180
Other	168	160
Contingent liabilities	2 948	**2 704**
Guarantees*	2 595	2 280
Promissory note liability	176	160
Liabilities due to implementation of projects and inventions**	-	94
Property tax on mining excavations	149	146
Other	28	24
Other liabilities not recognised in the statement of financial position	**291**	**120**
Liabilities towards local government entities due to expansion of the tailings storage facility	116	117
Liabilities due to operating leases	175	3

*As part of the analysis of the impact of IFRS 9 on the financial statements with respect to the financial guarantees granted to Sierra Gorda, in the Company's opinion it is necessary to recognise the aforementioned guarantees in the accounting books as per IFRS 9. 4.2.1 (c). Details were presented in part 4, note 4.5 of this report's consolidated financial statements.

** The change in the balance is a result of a reclassification of liabilities due to the possibility of an outflow of resources embodying economic benefits (IAS 37). In the statement of financial position, the event is presented in current liabilities, in the item "Provisions for liabilities and other charges". As at 30 June 2018, provisions due to this amounted to PLN 95 million.

amounts in PLN millions, unless otherwise stated

Note 3.8 Changes in working capital

	Inventories	Trade receivables	Trade payables	Working capital
As at 1 January 2018	(3 857)	(1 050)	1 882	**(3 025)**
As at 30 June 2018	(4 627)	(683)	1 303	**(4 007)**
Change in the statement of financial position	**(770)**	**367**	**(579)**	**(982)**
Depreciation recognised in inventories	45	-	-	**45**
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	224	**224**
Adjustments	45	-	224	**269**
Change in the statement of cash flows	(725)	367	(355)	**(713)**

	Inventories	Trade receivables	Trade payables	Working capital
As at 1 January 2017	(2 726)	(676)	1 542	**(1 860)**
As at 30 June 2017	(3 783)	(665)	1 665	**(2 783)**
Change in the statement of financial position	**(1 057)**	**11**	**123**	**(923)**
Depreciation recognised in inventories	32	-	-	**32**
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	246	**246**
Adjustments	32	-	246	**278**
Change in the statement of cash flows	**(1 025)**	**11**	**369**	**(645)**

Note 3.9 Other adjustments in the statement of cash flows

	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Losses on the sales of property, plant and equipment and intangible assets	17	15
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging instruments	(21)	(4)
Income tax (expenses)/proceeds from the tax group companies	(1)	23
Other	1	3
Total	**(4)**	**37**

Part 4 – Quarterly financial information of KGHM Polska Miedź S.A.

CONDENSED STATEMENT OF PROFIT OR LOSS

		from 1 April 2018 to 30 June 2018	from 1 April 2017 to 30 June 2017	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
	Revenues from contracts with customers, including:	3 983	3 805	7 189	7 701
	from sales, for which the amount of revenue was not finally determined at the end of the reporting period (IFRS 15. 114)	226	N/A*	588	N/A*
Note 4.1	Cost of sales	(3 101)	(2 916)	(5 605)	(5 571)
	Gross profit	**882**	**889**	**1 584**	**2 130**
Note 4.1	Selling costs and administrative expenses	(236)	(219)	(418)	(395)
	Profit on sales	**646**	**670**	**1 166**	**1 735**
Note 4.2	Other operating income and (costs) including:	625	(327)	708	(597)
	interest income calculated using the effective discount rate method	68	N/A*	125	N/A*
	Reversal/(recognition) of impairment losses on financial instruments and (recognition) of impairment losses on purchased or originated credit-impaired (POCI) assets	94	N/A*	143	N/A*
Note 4.3	Finance income and (costs)	(720)	382	(596)	691
	Profit before income tax	**551**	**725**	**1 278**	**1 829**
	Income tax expense	(94)	(220)	(291)	(519)
	PROFIT FOR THE PERIOD	**457**	**505**	**987**	**1 310**
	Weighted average number of ordinary shares (million)	**200**	**200**	**200**	**200**
	Basic and diluted earnings per share (in PLN)	**2.29**	**2.53**	**4.94**	**6.55**

** N/A – not applicable – items in which the following did not occur in the first half of 2017: measurement in accordance with principles arising from the application, from 1 January 2018, of IFRS 9, and the disclosure requirement of IFRS 15.*

amounts in PLN millions, unless otherwise stated

Explanatory notes to the condensed statement of profit or loss

Note 4.1 Expenses by nature

	from 1 April 2018 to 30 June 2018	from 1 April 2017 to 30 June 2017	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Depreciation of property, plant and equipment and amortisation of intangible assets	287	262	580	531
Employee benefits expenses	902	813	1 684	1 564
Materials and energy, including:	1 144	1 417	2 549	2 788
Purchased metal-bearing materials	611	906	1 477	1 759
Electrical and other energy	187	190	372	357
External services, including:	419	360	788	713
Transport	53	56	103	108
Repairs, maintenance and servicing	131	102	239	200
Mine preparatory work	125	103	242	207
Minerals extraction tax	466	405	900	871
Other taxes and charges	109	101	218	208
Other costs	15	40	44	60
Total expenses by nature	**3 342**	**3 398**	**6 763**	**6 735**
Cost of merchandise and materials sold (+)	51	51	92	107
Change in inventories of finished goods and work in progress (+/-)	(28)	(282)	(772)	(816)
Cost of manufacturing products for internal use (-)	(28)	(32)	(60)	(60)
Total costs of sales, selling costs and administrative expenses, including:	**3 337**	**3 135**	**6 023**	**5 966**
Cost of sales	3 101	2 916	5 605	5 571
Selling costs	28	30	52	56
Administrative expenses	208	189	366	339

amounts in PLN millions, unless otherwise stated

Note 4.2 Other operating income and (costs)

	from 1 April 2018 to 30 June 2018	from 1 April 2017 to 30 June 2017	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Measurement and realisation of derivatives	54	72	91	225
Interest on loans granted and other financial receivables	69	86	126	184
Fees and charges on re-invoicing of costs of bank guarantees securing payments of liabilities	10	3	28	23
Reversal of impairment losses on financial instruments, including:	136	N/A*	950	N/A*
Reversal of allowances for impairment of loans due to restructuring of intra-group financing	-	N/A*	778	N/A*
Reversal of allowances for impairment of loans measured at amortised cost	136	N/A*	171	N/A*
Gains on changes in fair value of financial assets measured at fair value through profit or loss	47	N/A*	160	N/A*
Exchange differences on assets and liabilities other than borrowings	451	-	327	-
Dividends income	239	4	239	4
Other	27	18	44	31
Total other income	**1 033**	**183**	**1 965**	**467**
Measurement and realisation of derivatives	(60)	(74)	(119)	(157)
Impairment losses due to initial recognition of POCI loans due to restructuring of intra-group financing	-	N/A*	(763)	N/A*
Losses due to fair value changes of financial assets measured at fair value through profit or loss	(119)	N/A*	(119)	N/A*
Allowances for impairment of loans	(42)	N/A*	(44)	N/A*
Exchange differences on assets and liabilities other than borrowings	-	(410)	-	(835)
Provisions recognised	(148)	(2)	(149)	(10)
Other	(39)	(24)	(63)	(62)
Total other costs	**(408)**	**(510)**	**(1 257)**	**(1 064)**
Other operating income and (costs)	**625**	**(327)**	**708**	**(597)**

** N/A – not applicable – items which in the first half of 2017 were not measured in accordance with principles arising from the application, from 1 January 2018, of IFRS 9.*

Note 4.3 Finance income and (costs)

	from 1 April 2018 to 30 June 2018	from 1 April 2017 to 30 June 2017	from 1 January 2018 to 30 June 2018	from 1 January 2017 to 30 June 2017
Exchange differences on borrowings	-	443	-	812
Measurement of derivatives	11	-	26	-
Total income	**11**	**443**	**26**	**812**
Interest on borrowings	(34)	(29)	(58)	(58)
Bank fees and charges on borrowings	(6)	(7)	(12)	(14)
Exchange differences on borrowings	(681)	-	(531)	-
Measurement of derivatives	-	(14)	-	(27)
Unwinding of the discount	(10)	(11)	(21)	(22)
Total costs	**(731)**	**(61)**	**(622)**	**(121)**
Finance income and (costs)	**(720)**	**382**	**(596)**	**691**

KGHM
POLSKA MIEDŹ

THE MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF THE GROUP IN THE FIRST HALF OF 2018

Lubin, August 2018

Table of contents

Useful terms and abbreviations

Adjusted EBITDA	EBITDA adjusted by impairment losses (-reversals of impairment losses) on non-current assets recognised in cost of sales, selling costs and administrative expenses
Barren rock	Rock which accompanies the extraction of mineral ore and, due to its lack of minerals in sufficient quantities, is not considered as useful
BAT	Best Available Technique, as defined in Directive 96/61/EC, means the most effective and advanced stage in the development of activities and their methods of operation which indicate the practical suitability of particular techniques for providing in principle the basis for emission limit values designed to prevent and, where that is not practicable, generally to reduce emissions and the impact on the environment as a whole
BREF	"BAT REFerence document", the reference document of best available techniques (BAT)
Copper cathodes	The basic form of electrolytically-refined copper; the product of electrolytic copper refining
Copper concentrate	The product of enriching or concentrating low-grade copper ore
Copper equivalent	Total volume of production of all metals calculated to copper based on market prices
Copper wire rod	Drawn copper rod, usually with a diameter of 6-12 mm, universally used as a starting material in the cable industry
Deposit	Natural collection of minerals in the earth, arising as a result of various geological processes.
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation – profit/(loss) on sales plus depreciation/amortisation
EBITDA margin	EBITDA margin = Adjusted EBITDA / Sales revenue
Electrolytic copper	The product of electrolytic copper refining
Electrolytic copper refining technology	A process involving the electrolytic refining of metal, in this case copper. The periodic removal of portions of the electrolite is required to maintain the level of contaminates at an acceptable level, which is the one of decisive factors determining the quality of electrolytically-refined copper. The contaminated electrolyte and slimes are used as the raw material in the recovery of some of the metals accompanying the copper, such as silver, gold, selenium and nickel
Electrorefining	The process of electrolising dissoluble anodes which are produced from refineable alloys. During this process refined metal is collected on starter sheets under controlled conditions, while contaminants remain in the electrolyte as solids or liquid
Flotation (ore enrichment)	A stage in the process of breaking down ore into fragments of varying composition of useful elements which exploits differences in the degree of wettability of individual mineral grains. Well-wetted minerals fall to the bottom of the flotation tank, while the poorly-wetted grains (those whose wettability decreases due to the action of so-called collecting agents, e.g. xanthates) collect at the surface of the froth created from froth-inducing agents.
Flotation tailings	Waste remaining after the ore enrichment process; can be utilised or stored
ISO	International Organization for Standarization
LTIFR	Lost-time injury frequency rate – number of accidents per million worked hours
Mine excavation	Open area left after the mining work
Muck	Rock removed from a mine face. Contains both ore and barren rock.
NBP	National Bank of Poland
Net debt	Borrowings and finance lease liabilities less free cash and short term investments with a maturity of up to 1 year.
OFE rod	Oxygen-free copper wire rod produced at the Cedynia wire rod Division using UPCAST technology
Ore	Rock which contains one or more useful elements. Ore can be monometallic (containing a single metal) or polymetallic (containing more than one metal)
Payable copper	Volume of copper produced less the amount corresponding to the loss incurred in further processing to pure metal
Payable metal	Volume of metal produced less the amount corresponding to the loss incurred in further processing to pure metal
Pillar (mining)	An unremoved mass of rock in an underground mine used to support the ceiling against collapse.
REACH	Registration, Evaluation, Authorisation and Restriction of Chemicals - decree issued by the European Parliament and the European Council on the safe use of chemicals through their registration and evaluation, and in certain cases through the issuance of permits and restrictions in the sale and use of certain chemicals
Silver smelting and electrolytic refining technology	Comprised of: batch preparation (the mixture of batch elements followed by drying); the smelting of Doré metal and the casting of anodes (melting of the batch in a Kaldo furnace to remove slag or gasify impurities followed by casting of the product [99% silver] into anodes); silver electrorefining (forming into cathodes containing a min. 99.99% Ag); melting in an electric induction furnace and the casting of refined silver into commercial form (billets or granules)
TPM (Total Precious Metals)	Precious metals (gold, platinum, palladium)
Troy ounce	A unit of measure mainly used in English-speaking countries. The troy ounce (abbreviated as oz t) is universally used in jewellery and precious metals commerce. 1 troy ounce equals 31.1035 grams
YoY	year on year, i.e. comparison between one year and the next year

Significant events in the first half of 2018 and to the date of preparation of this report

Date	Event
Change in macroeconomic conditions	
1st half of 2018	Higher period-average prices of copper, molybdenum and nickel, as compared to the first half of 2017, respectively by 20%, 52% and 42% alongside a lower silver price by 4%
1st half of 2018	Change, as compared to the first half of 2017, in period-average exchange rates: USD/PLN by -12%, USD/CAD by -4% and USD/CLP by -7%
KGHM Polska Miedź S.A. on the Warsaw Stock Exchange	
1st half of 2018	A decrease in the share price of KGHM Polska Miedź S.A. by 21% from PLN 111.20 to PLN 88.00
Changes in the composition of KGHM Polska Miedź S.A.'s governing bodies	
10 March 2018	Change in the composition of the Management Board – dismissal of President of the Management Board Radosław Domagalski-Łabędzki and of Vice President of the Management Board Michał Jezioro. The duties of President of the Management Board were assigned to Rafał Pawełczak.
3 April 2018	Resignation of Wojciech Andrzej Myślecki from the function of Member of the Supervisory Board of KGHM Polska Miedź S.A.
22 June 2018	Change in the composition of the Management Board – appointment of the following persons to the 10th term Management Board of KGHM Polska Miedź S.A. as at the date of conclusion of the General Meeting of KGHM Polska Miedź S.A. approving the financial statements for 2017: Marcin Chludziński as President of the Management Board, Katarzyna Kreczmańska-Gigol as Vice President of the Management Board (Finance), Radosław Stach as Vice President of the Management Board (Production).
6 July 2018	Change in the composition of the Management Board – assumption of functions: President of the Management Board by Marcin Chludziński, Vice President of the Management Board (Finance) by Katarzyna Kreczmańska-Gigol as well as Vice President of the Management Board (Production) by Radosław Stach.
6 July 2018	Change in the composition of the Supervisory Board – appointment of the following persons to the 10th term Supervisory Board: Leszek Banaszak, Jarosław Janas, Andrzej Kisielewicz, Janusz Marcin Kowalski, Bartosz Piechota, Marek Pietrzak, Agnieszka Winnik-Kalemba as well as the following members elected by employees of the KGHM Polska Miedź S.A. Group: Józef Czyczerski, Ireneusz Pasis, Bogusław Szarek.
Impairment of assets	
19 January 2018	Identification of indications to verify the recoverable amount of international mining assets
21 February 2018	Information on the results of the conducted tests for impairment
Appropriation of profit for 2017	
22 May 2018	The Management Board's recommendation regarding the appropriation of profit for 2017 by transferring the entirety of it to the Company's reserve capital.
6 July 2018	Decision of the Ordinary General Meeting of KGHM Polska Miedź S.A. to appropriate profit in accordance with the recommendation of the Management Board.
Other	
15 March 2018	The Extraordinary General Meeting of the Company adopted resolutions regarding amendments to the Statutes of KGHM Polska Miedź S.A.
4 April 2018	Registration by the National Court Register of changes in the Statutes of the Company, adopted by resolutions of the Extraordinary General Meeting dated 15 March 2018.
22 May 2018	Publication of the main assumptions of the Budget of KGHM Polska Miedź S.A. and the KGHM Group for 2018, approved by the Supervisory Board on 22 May 2018.
27 June 2018	Negative decision by the government of Canada on advancement of the Ajax project as the project is likely to cause significant adverse environmental effects
13 July 2018	An increase in the share of the total number of votes in the Company above 5% by Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK

1. Strategy of KGHM Polska Miedź S.A.

1.1. BASIC ELEMENTS OF THE STRATEGY OF KGHM POLSKA MIEDŹ S.A.

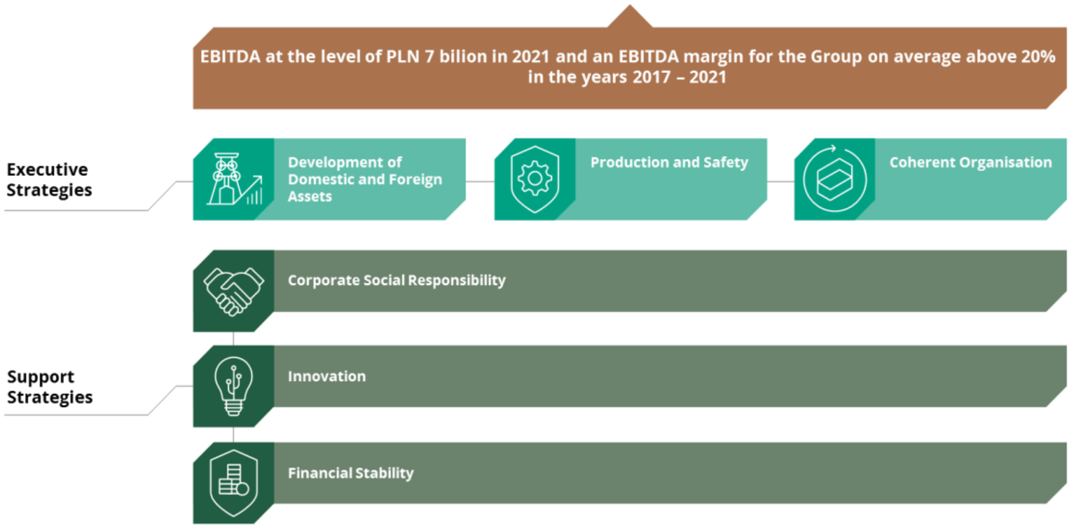
The Strategy of KGHM Polska Miedź S.A. for the years 2017-2021 with an outlook to 2040 is based on the mission „To always have copper" and on the vision „To use our resources efficiently to become a leader in sustainable development". The actions taken since 2017 shine a beacon on both of these slogans and at the same time emphasise the numerically-expressed main goal, predicated on the achievement of EBITDA at the level of PLN 7 billion in 2021 and an EBITDA margin for the Group on average above 20% in the years 2017 – 2021.

In the first half of 2018, the adopted ratios: EBITDA for the Group as well as EBITDA for KGHM Polska Miedź S.A. and the EBITDA margin for the Group exceeded the levels planned in the budget. This situation applied to the entire KGHM Polska Miedź S.A. Group, including to the largest degree KGHM Polska Miedź S.A..

The Strategy for the years 2017 – 2021 with an outlook to 2040 is based on:

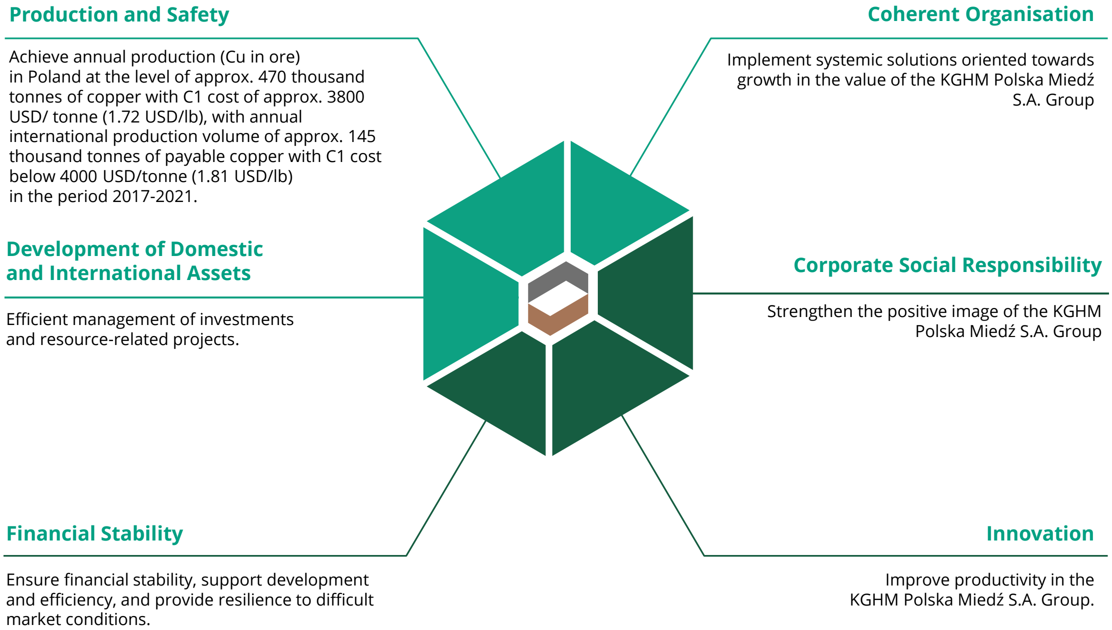
– 3 executive strategies: Development of Domestic and International Assets, Production and Safety and Coherent Organisation, as well as
– 3 support strategies: Corporate Social Responsibility, Innovation and Financial Stability

Diagram 1. Strategy of KGHM Polska Miedź S.A.



Following are the individually-defined main goals for each of the executive and support strategies:

Diagram 2. Individual goals for each of the Executive and Support strategies



Over the long term, the Company is attempting to maintain a stable level of production from its domestic and international assets as well as a level of costs which guarantees financial security, while assuring safe working conditions and a minimal impact on the natural environment and vicinity.

Based on the Strategy advanced to date, following are the most important challenges facing the Company in 2018:

- Improving the level of electrolytic copper production from own concentrate in Poland, among others by:
  - Further improvement in flash furnace efficiency at the Głogów Copper Smelter and Refinery to achieve planned production capacities.
  - Commencement of the concentrate roasting installation by year's end.
  - Management of copper concentrate inventories.
- Implementation of the first group of actions to eliminate bottlenecks at the Sierra Gorda mine in order to increase daily ore output to the target level of 130 thousand tonnes in 2019.
- Preparation / advancement of key investments:
  - Further expansion and development of mine infrastructure.
  - Expansion of the Żelazny Most tailings storage facility.
  - Commencement of construction of the Reverberatory-Melting-Refining Furnace (RMR) for smelting copper anodes at the Legnica Copper Smelter and Refinery.

1.2. ADVANCEMENT OF THE PARENT ENTITY'S STRATEGY IN THE FIRST HALF OF 2018

In advancement of the adopted Strategy, in the first half of 2018 the Company continued actions aimed at implementation of the „Concept and model for the management of sustainable development in KGHM Polska Miedź S.A.", which was developed at the end of 2017, recognising that key areas of sustainable development for KGHM on which the Company will concentrate are: the Environment, Economy, Society, Safety and Resource Efficiency.
In terms of actions related to the above, in the first quarter of 2018 a Sustainable Development Council was established which is chaired by the Vice President of the Management Board (Development). Under its auspices a „Declaration of protection of human rights" and a „Declaration of Diversity" were developed and approved. The Council also approved non-financial ratios of KGHM Polska Miedź S.A., which were identified and reported in compliance with the concept of sustainable development in the non-financial report of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group for 2017.
In the second quarter of 2018 the Management Board of KGHM Polska Miedź S.A. adopted in the Company the Code of Ethics of the KGHM Polska Miedź S.A. Group and the Code of Conduct in KGHM Polska Miedź S.A. During the first half year four Strategic Programs selected under the new approach were continued, whose purpose is to support the achievement of key goals of the Strategy of KGHM Polska Miedź S.A. and will enable attention to be focused on those tasks which create the most value for the Company.

Diagram 3. Names and descriptions of four Strategic Programs in KGHM Polska Miedź S.A.

Program to adapt the technological installations of KGHM to the requirements of BAT Conclusions for the non-ferrous metals industry and to restrict emissions of arsenic (BATAs)

- The BATAs Program is a response to the need to adapt the technological installations of the Metallurgical Divisions (the Legnica and Głogów Copper Smelters/Refineries) to the requirements of BAT Conclusions for the non-ferrous metals industry and to restrict emissions of arsenic to the environment.
- The Program is part of the global Business Strategy of KGHM and of the Corporate Social Responsibility (CSR) Strategy – aimed at protecting the environment, improving occupational safety and promoting KGHM as a company acting in compliance with the precepts of sustainable development.

Metallurgy Development Program

- The MDP was commenced in order to optimise the adaptation of the metallurgical structure of KGHM Polska Miedź S.A. and of technology to ensure an increase in the processing capacity of own concentrate, imported concentrates and purchased scrap.

Deposit Access Program

- The goal of the DAP is to create the conditions to maintain mine production at the level set in the Production Plan of KGHM Polska Miedź S.A. and to optimise production of raw materials to ensure the Company's profitability by gaining access to a new area of the deposits, ensuring prolongation of the working life of KGHM in the Copper Basin in Lower Silesia to 2042.

KGHM 4.0 Program

- The KGHM 4.0 Program is a venture which addresses the Industry 4.0. concept - its principles represent an implementation of the Industry 4.0 idea within the technical-organisational environment of KGHM Polska Miedź S.A.
- The KGHM 4.0 Program assumes the advancement of projects aimed at the unified management of production and the utilisation of data in order to improve productivity and efficiency.

Teams were also established to develop Definitions for subsequent Programs: „Scrap Plant (SSI, or Scrap Smelting Installation)", „Management of underground machines", „Closed circuit management". Based on the concepts developed, respective Strategic Programs are planned for commencement in subsequent periods, aimed at the further optimisation of management of the Strategy, key projects and tasks.

1.3. POLICY REGARDING THE DEVELOPMENT DIRECTIONS OF THE KGHM GROUP

During the reporting period, policy regarding the development directions of the KGHM Group was continued, for both the domestic companies and international companies. With respect to the domestic companies, development policy continued to be aimed at cooperation between entities and at eliminating overlapping activities.

In the case of the international assets of the KGHM Group, development policy was determined by the previously-begun process of simplification of the structure of the KGHM Group's international assets.

1.4. DIRECTIONS REGARDING EQUITY INVESTMENTS

In terms of the domestic companies, the goal of development intentions is to ensure continuity as well as occupational safety within the core business of KGHM Polska Miedź S.A.

With respect to the international part of the Group, the Company is concentrating on maximising the value of its portfolio of assets. With respect to the international development projects, in accordance with the Company's Strategy, it is assumed that they will be advanced if excess financial resources can be secured.

1.5. DIRECTIONS REGARDING CAPITAL INVESTMENTS

With respect to continuing adopted directions of investments in property, plant and equipment, the Company's investments are mainly aimed at projects related to the core business. The investment policy of KGHM Polska Miedź S.A. is based on advancing the Company's five-year investment plan, which is pursuant to the Strategy of KGHM as well as advancement of the long-term production plan.

In subsequent years the Company will concentrate on initiatives mainly in the area of mining and metallurgical production, such as:

- The Deposit Access Program (Deep Głogów along with access and development tunnels);
- Development of the Żelazny Most Tailings Storage Facility;
- The Metallurgy Development Program (MDP); and
- Increasing production capacity to 160 thousand tonnes of copper cathode annually at the Legnica Copper Smelter and Refinery (RMR) under the currently-defined Strategic Program „Scrap plant".

The Company, aiming to increase its natural resource assets, is continuing geological work under the concessions held for the exploration and documentation of copper ore deposits in areas directly adjacent to those deposits currently being mined.

Adopted intentions also include the advancement of actions involving closed-circuit management (CCM). In addition the Company will advance in an on-going manner work involving new „intelligent" technology and production management systems, based on online communication between elements of the production process and advanced data analysis, pursuant to the KGHM 4.0 Program concept.

1.6. ADVANCEMENT OF KEY STRATEGIC TASKS IN THE FIRST HALF OF 2018

Following are the most important projects and initiatives, including the degree of their advancement, in accordance with the present Strategy.

Regional exploration program of KGHM Polska Miedź S.A. regarding the exploration and documentation of copper deposits in the Lower Zechstein formation located in south-western Poland:

Radwanice-Gaworzyce	–	Mining within this deposit is currently being conducted in the areas Radwanice Wschodnie and Gaworzyce. In the remainder of the deposit, due to the wide variability in geological and mining conditions, it is expected that the areas Radwanice-Zachód and Radwanice Północ will be explored from the underground mine works, conducted mainly in areas of copper mineralisation. The date for commencing this work depends on the progress of mining in the areas Sieroszowice and Radwanice Wschodnie.
Synklina Grodziecka and Konrad	–	Technical and economic analyses carried out which were reviewed by independent experts indicated that currently there is a lack of justification for advancing this investment. Given the fact that the costs associated among others with dewatering the projected mine play a critical role in determining the economic feasibility of the project, it was decided that additional hydrogeological research would be conducted, the results of which could lead to a change in the dewatering costs model. Administrative proceedings are currently underway involving the possibility of continuing the geological work under the Synklina Grodziecka concession.
Retków-Ścinawa and Głogów	–	The Company is continuing to advance stage 2 of exploration and evaluation work within the Retków-Ścinawa concession, under which three exploratory drillholes have been sunk to date. Formal procedures are underway along with preparatory and organisational work related to commencing subsequent exploratory drilling in the area of Retków-Ścinawa as well as commencing stage II of work within the Głogów concession.

Exploration projects in the preparatory phase:

Bytom Odrzański Kulów-Luboszyce	– As a result of a decision by the Supreme Administrative Court, which dismissed cassation appeals in respect of the concessions Bytom Odrzański and Kulów-Luboszyce, a decision as to the granting of concessions for the areas in question requires a reconsideration by the concession-granting body.

Other concessions:

Puck region	– Based on a new reinterpretation of the geological profile of the region as well as on an economic and technical feasibility study conducted on the possibility of mining the studied potassium-magnesium salt deposits reflecting the mine model and processing technology, it was decided to conduct further geological work. In the first half of 2018 another drillhole was sunk.

Key development projects of the Core Business in Poland:

Deposit Access Program (Deep Głogów)	– Work continued on the sinking of the GG-1 shaft (material-personnel shaft, with an air inlet function). The shaft's target depth is 1 350 meters with a diameter of 7.5 meters. The shaft's depth has reached 1 070 meters. In December 2017 and January 2018, during the drilling of exploratory holes from the bottom of the shaft, the actual water-related hazard at the main dolomite layer was uncovered. The sinking of the shaft will continue following pre-cementation, which began in mid-April 2018. The shaft will reach the level of the deposit in 2020. – Due to the change in the shaft's function from that of ventilation to material-personnel transport, completion of the shaft's construction together with infrastructure is planned for the start of 2024. – Work continues on construction as well as on the preparation of an environmental impact report for the Surface-based Central Air Conditioning System at the GG-1 shaft as well as work related to construction of the Ice Water Transportation System. Negotiations are also underway with the owners of property with respect to the placement of piping. – Preparatory work continued related to obtaining construction permits to build the GG-2 („Odra") shaft. – In the first half of 2018, 22 724 meters of tunneling were built in the Rudna and Polkowice-Sieroszowice mines.
Program to adapt the technological installations of KGHM to the requirements of BAT Conclusions for the non-ferrous metals industry and to restrict emissions of arsenic (BATAs)	– The BATAs Program portfolio comprises 26 new investment projects, including 20 at the Głogów Copper Smelter and Refinery and 6 at the Legnica Copper Smelter and Refinery. In addition, 20 projects related with the BATAs Program (12 at the Głogów Copper Smelter and Refinery and 8 at the Legnica Copper Smelter and Refinery) will also be advanced. Advancement of the entire program is expected to last until August 2023, although key projects related to improving environmental impact will be completed by June 2020. – In the first half of 2018, tender proceedings were initiated as part of the preparation of individual projects.
Pyrometallurgy Modernisation Program at the Głogów Copper Smelter and Refinery	– Production by the flash furnace of the Głogów I Copper Smelter and Refinery was stabilised. Nearing completion were settlement procedures and the final handovers of contracts and orders with respect to the Pyrometallurgy Modernisation Program.
Metallurgy Development Program (MDP)	In the first half of 2018, construction and assembly work was carried out on technological links under the Program's key investment tasks: – Steam Drier - the stage of technological trials was completed. Following the maintenance shutdown of the Głogów II Copper Smelter and Refinery (June 2018), production is underway with the full use of the newly-built steam drier. In subsequent months the completion of associated work is planned as well as final settlement and handover. – In order to start operations by the copper concentrate roasting installation at the Głogów I Copper Smelter and Refinery the installation is being adapted. – With respect to projects related to adapting technical infrastructure to changes in the metallurgical technology at the Głogów I Copper Smelter and Refinery, primary work was completed. Work continues on procedures involving final handovers and settlements, as well as obtaining administrative decisions. – With respect to modernisation of the Tank Hall at the Głogów I Copper Smelter and Refinery, technical documentation is being developed to renovate the Hall's roof and walls.
Increasing cathode production at the Legnica Copper Smelter and Refinery to 160 kt/year (RMR+ISA)	– Work continues on the Project "Construction of a Reverberatory-Melting-Refining Furnace (RMR) at the Legnica Copper Smelter and Refinery". Work is underway to prepare for construction of the RMR furnace – construction of foundations. – Planned date of completion: December 2018.
Development of the Żelazny Most Tailings Storage Facility	– Based on the permit received in 2016 to develop the Main Facility to a crown height of 195 meters a.s.l. and a permit to further operate the Tailings Storage Facility, the dam is being built up successively as part of the on-going operations of the Division. – In March 2018, a building permit was issued for the Southern Quarter. Construction of the Southern Quarter will enable the additional deposition of waste tailings in the amount of around 170 million m^3. – In May 2018, construction of the Southern Quarter began. Also, a decision was obtained enabling construction of the Tailings Segregation and Thickening Station, which is expected to commence in the third quarter of 2018.

Development of international assets:

Victoria Project (Sudbury Basin, Canada) *KGHM Polska Miedź S.A. Group 100%*	–	In the first half of 2018, the project team conducted work related to securing existing infrastructure and project terrain. Required permits for the project were reviewed and work commenced on preparing necessary applications, mainly with respect to planned work related to the construction of selected elements of the project's infrastructure. Based on analytical work performed in 2017, the base scenario assumes the Victoria project will be developed in two stages, comprised of the sinking of a first shaft along with additional exploration, followed by a second shaft for production.
Sierra Gorda Oxide (Chile) *KGHM INTERNATIONAL LTD. Group 100%. Sumitomo Metal Mining and Sumitomo Corporation hold an option to in total acquire a 45% stake in the project.*	–	In the first half of 2018, work continued on selected assumptions and options of the project, aimed mainly at analysing the possibility of preparing the ore for heap leaching. A review was also commenced on the scope of selected engineering work and on specific requirements involving the receipt of required permits for the project.
Ajax Project (British Columbia, Canada) *KGHM Polska Miedź S.A. Group 80%, Abacus Mining and Exploration Corp. 20%*	–	On 27 June 2018, the Government of Canada, through the Governor-in-Council (Cabinet) issued a negative decision regarding the Ajax project. Following a review of this decision, the next steps to be taken will be considered. This decision of the Government of Canada supplements the decisions of the Ministry of Natural Resources and the Ministry of Energy, Mines and Petroleum Resources of British Columbia (provincial authorities) from December 2017 against the granting of an Environmental Assessment Certificate for the Ajax project.

Production:

Sierra Gorda Mine in Chile – Phase 1 *KGHM INTERNATIONAL LTD. Group 55%, Sumitomo Metal Mining and Sumitomo Corporation 45%*	– – –	Production of copper in concentrate in the first half of 2018 amounted to 44.6 thousand tonnes, while production of molybdenum in concentrate amounted to 13.95 million pounds (on a 100% basis). Work continued related to optimising the processing of the sulphide ore. The actions taken were concentrated on stabilising the work of the processing plant as well as on increasing copper and molybdenum recovery, which led to improved results. At present work is aimed at developing the mine based on maximum utilisation of existing infrastructure and optimising the production line, which should lead to an increase in average annual daily ore throughput volume.
Improving efficiency in the core business in Poland	– – – – –	In the first half of 2018, work continued on initiatives aimed at automating production in the Mining Divisions of KGHM. Work also commenced on the advancement of projects involving automating production announced under the KGHM 4.0 program in the area INDUSTRY: – The placement and identification of machinery and persons in underground mines (pilot version and proof of proper functioning), – Broad-band data transmission in underground mines, – Monitoring of utilities - power, ventilation, water, – Robotisation of production and auxiliary processes, – Monitoring of mining vehicle parameters – continuation of the SYNAPSA project, – Multidimensional data analysis of production processes – CZAD. To achieve savings through the acquisition of freely-granted energy efficiency certificates, three ventures were designated which meet the requirements of the new energy efficiency law. At present energy efficiency audits and appropriate documentation are being prepared, which will represent appendices to the application on the granting of white certificates. Tasks aimed at reducing energy consumption in KGHM Polska Miedź S.A. are advancing in accordance with the schedule under the Energy Management System implemented in the Company in compliance with PN-EN ISO50001:2012 and with the Energy Savings Program (ESP). During the reported period, as a result of the realisation of tasks identified under the aforementioned actions conducted in the Divisions, primary energy consumption was reduced by 6 271 MWh. In order to optimise underground machinery management and to improve their operating efficiency ratios, the Company is aiming to stabilise the replacement of mining vehicles at the level of at least 16% annually and to stabilise the availability of primary machinery at the level of at least 74.5%. In the first half of 2018, actions were continued aimed at achieving the planned level of machinery replacement, which as at 30 June 2018 amounted to 15% and at improving availability, which as at 30 June 2018 amounted to 73.7%.
Improvement in occupational health and safety	– –	In the first half of 2018, the Company did not record a single accident-related fatality. The total number of registered workplace accidents (injuries) in the first half of 2018, as compared to the corresponding period of 2017, decreased by 15%. The Company continued work involving implementation of the multi-year Occupational Health and Safety Program in KGHM Polska Miedź S.A. Further film reconstructions of selected workplace accidents in the Divisions of KGHM Polska Miedź S.A. were prepared. Further editions of the so-called safety passport were developed as well as educational materials on industrial hygiene. New technical solutions were tested in the Divisions of KGHM aimed at improving OHS, and new formulas of cooperation with subcontractors were implemented.

		The Company is continuing to advance the goals of „Zero accidents due to human and technical reasons, zero occupational illnesses among our employees and contractors".

Initiatives aimed at enhancing knowledge and innovation in KGHM Polska Miedź S.A.:

Main R&D initiatives	–	In the first half of 2018, the Company together with international consortiums submitted to KIC Raw Materials the following applications for financing: – Operation monitoring of mineral crushing machinery; – Optimized and controlled process water management in sulphide ore processing; – Autonomous Monitoring and Control System for Industrial Plants and Raw Materials; – Use of organosolv lignin hydrophobic nanoparticles as biodegradable flotation collectors;
	–	In addition, an application was submitted to Horizon 2020 for the financed initiative: Breakthrough concepts and solutions for sustainable exploration, mining and/or processing.
	–	A consortium agreement was signed to advance the project „Maintained Mine & Machine" (MaMMa), subsidised under EIT Raw Materials. Its goal is to build a management processes support system to maintain mine production and mine machinery.
	–	Under the Horizon 2020 Program, the Company participates in two research projects: BIOMORE and INTMET and is submitting an application with its international partners for a project involving the development of technology to improve the recovery of fine mineral particles.
	–	The AMCO project continues under the auspices of KIC Raw Materials.
	–	Work continues on R&D projects focused on developing and executing innovative technological and organisational solutions enabling an improvement in efficiency, workplace safety and ensuring uninterrupted production.
	–	The second stage of work was completed on the Pilot Interdisciplinary Program of Implementation Doctorates in KGHM Polska Miedź S.A., in fulfilment of a ministerial competition under the second edition of the program of Implementation Doctorates („Doktorat wdrożeniowy"). As a result, actions were taken aimed at commencing a „Program of Implementation Doctorates in KGHM" for 39 candidates, who qualified for the Program, submitting their applications to 11 faculties in 5 public schools of higher learning.
CuBR Program	–	21 R&D projects having a total value of around PLN 150 million have been advanced to date under the CuBR Joint Venture, co-financed by the National Centre for Research and Development.
	–	In the first half of 2018, the selection of applications was completed under the fourth CuBR competition. 12 Project applications were received. In the near future they will be evaluated by the National Centre for Research and Development and KGHM Polska Miedź S.A.
	–	A Project involving innovative methods for accessing deep copper ore deposits was completed. Considering the results obtained, it is planned that the developed solutions will be implemented in the KGHM Group.
KGHM 4.0 Program	–	In accordance with the approved Definition of the KGHM 4.0 Program, the preparatory stage was completed whose goal was to create management structures, to implement and formalise the Program within KGHM and to adopt existing standards and procedures to the Program, including the activation of projects under the Program.
	–	As part of the aforementioned work on the KGHM 4.0. Program, the following were approved: an operating work-financial schedule for 2018, a registry of risks and plans to manage the program and a registry of project and organisational dependencies for the ventures advanced in KGHM.
	–	At present, the advancement of projects has begun, in accordance with approved project documentation.

2. Macroeconomic conditions

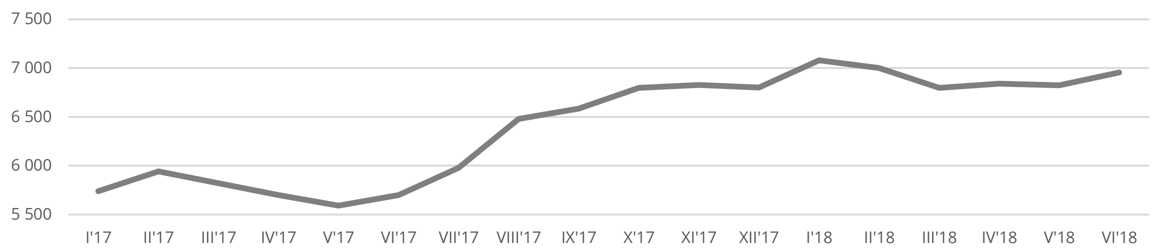
In the April issue of its World Economic Outlook (WEO), the International Monetary Fund maintained its January 2018 forecast of a high rate of global GDP growth in the coming years. The year 2017 ended with very good results in terms of economic activity – its increase in the second half, supported by a renewal of investments, exceeded 4 percent and was the strongest since the second half of 2010. Readings of the Eurozone, Japan, the United States and China exceeded the expectations published by the WEO in October 2017, and also gradually improved during the year in commodity-exporting countries. Financial conditions in the global economy, the level of measured interest rates and borrowing margins continue to be favourable, despite recent volatility on financial markets and an increase in the profitability of bonds which serve as a signal of higher inflation in developed economies. In subsequent months of 2018 there was a deterioration in global trade relations as well as a return by the United States to greater economic protectionism. Although the stated goal of president Donald Trump is to balance trade mainly with the Chinese and the European Union, the impact of the actions proposed by the leader of the USA, and in particular the scale and effects of any eventual retaliation, are difficult to assess. The European economy continued to grow at a stable level in the first half of 2018, though after a good 2017, macroeconomic readings in subsequent months of 2018 mostly failed to meet market expectations. European politicians continue to attempt to resolve matters related to immigrants as well as structural difficulties which arose during the economic crisis. The negotiations related to the United Kingdom leaving the European Union have become a much more complex and complicated process than had previously been anticipated. In the first half of 2018 the Chinese economy developed at a stable rate of 6.8% year-on-year, higher than the goal set by the Chinese People's Party of „around 6.5%". Both official forecasts and analysts expectations assume stable growth by China in subsequent years.

The American Federal Reserve (Fed) is continuing to pursue a policy of monetary tightening begun in December 2015. In 2018 interest rates were raised twice, altogether to the level of 1.75-2.00%. Apart from subsequent increases announced by members of the Federal Open Market Committee (FOMC), its monetary policy also assumes continued reduction of the balance sheet, the size of which is targeted to fall below USD 3 trillion by 2020, from approx. USD 4.45 trillion at the end of 2017. Actions related with the tightening of monetary policy as well as uncertainty as to global trade policies led to a return by investors towards the US dollar. The value of this currency (measured by the trade-weighted rate of return on the currency, DXY per Thomson Reuters) from the start of the year to the end of June 2018 rose by 2.5%. The long-expected return of the CPI to the inflation goal became a fact on a global scale, and consequently subsequent central banks (e.g. the European Central Bank, the Bank of England and the Bank of Canada) are announcing their desire to terminate the policy of quantitative easing which they have followed for many years and return to the gradual tightening of monetary conditions.

The cash settlement price of copper on the London Metal Exchange (LME) in the first half of 2018 ranged from approx. 6 500 to 7 263 USD/t. Continued economic growth, stable demand for copper and lower-than-expected production of the metal in the first quarter of 2018 led to copper prices remaining at a relatively stable level. Investors' appetite for risk was also supported by higher mining costs (such as remuneration and fuel prices). Also of significance were fears of market participants about potential interruptions to production caused by the renewal in the current year of labour contracts in South American mines (in May negotiations began with trade unions at the Escondida mine). The aforementioned factors as well as macroeconomic trends (including the weakening of the USD until mid-April 2018) resulted in an increase in the copper price to above 7 250 USD/t. The strengthening of the USD observed in subsequent weeks, the restrictive trade policy introduced by the USA at the turn of March and April and further escalation of the conflict at the end of the first half of 2018 led to a sell-off of assets on many markets, including the primary metals market.

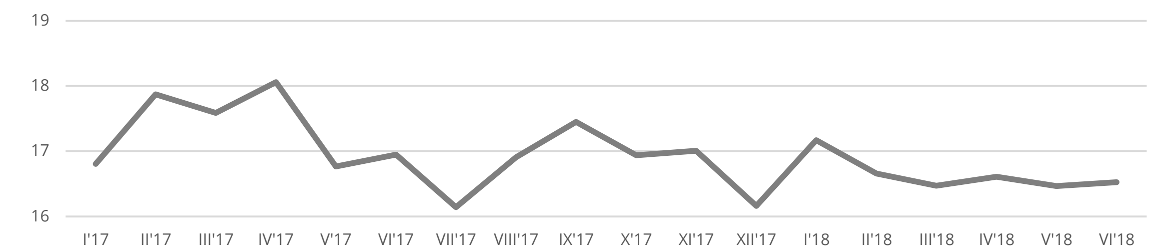
The average cash settlement price of **copper** in the first half of 2018 on the London Metal Exchange (LME) amounted to 6 917 USD/t and was more than 20% higher than in the comparable period of 2017, when it reached on average 5 749 USD/t.

Chart 1. Average monthly copper price on the London Metal Exchange (USD/t)



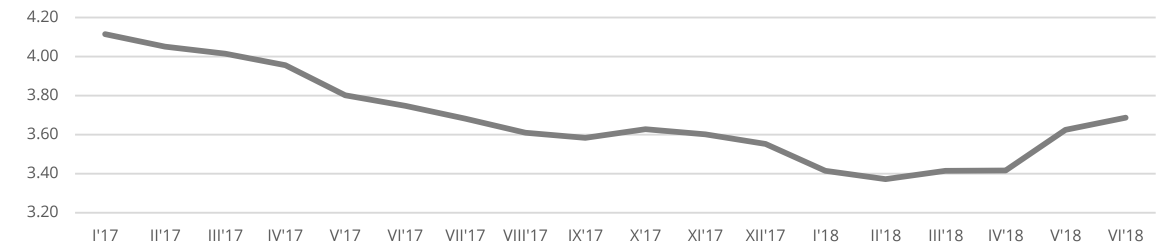
The average price of **silver** according to the London Bullion Market Association (LBMA) in the first half of 2018 reached the level of 16.65 USD/oz t (535.31 USD/kg), meaning a decrease by 3.8% as compared to prices in the first half of 2017 – 17.32 USD/oz t. Over the last few quarters the value of silver fluctuated within what for this metal is a relatively narrow range. Despite the historic dependence of the silver price on the value of gold, this correlation weakened and despite the rise in the price of gold on a yearly scale, silver decreased in value. The average price of silver in the first half of 2018 expressed in PLN decreased by 15.1% on a yearly scale and was the lowest price since the second half of 2015.

Chart 2. Average monthly silver price per the London Bullion Market (USD/oz t)



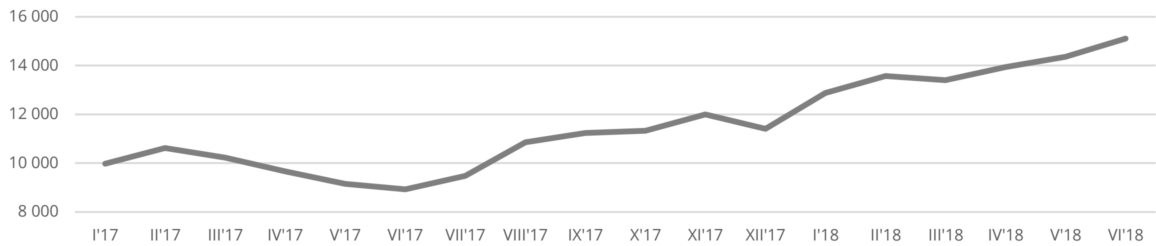
The average **USD/PLN exchange rate** (per the NBP) in the first half of 2018 amounted to 3.4872 and was lower compared to the corresponding period of 2017 by 11.7% (3.9473). After reaching multi-year highs (approx. 4.25) at the end of December 2016, the PLN gradually appreciated and continued this trend until February 2018, when the USD/PLN exchange rate stabilised, reaching its lowest level since 2014. After several weeks of stability the PLN again depreciated compared to the USD, mainly due to differences in the approach to monetary policy between the NBP and the Fed as well as to heightened risk with respect to investments on emerging markets caused by the escalation in the trade war and associated fears of a slowdown in economic activity. The maximum USD/PLN exchange rate was recorded in June at the level of 3.7705, and the minimum in February – 3.3173.

Chart 3. Average monthly USD/PLN exchange rate per the National Bank of Poland



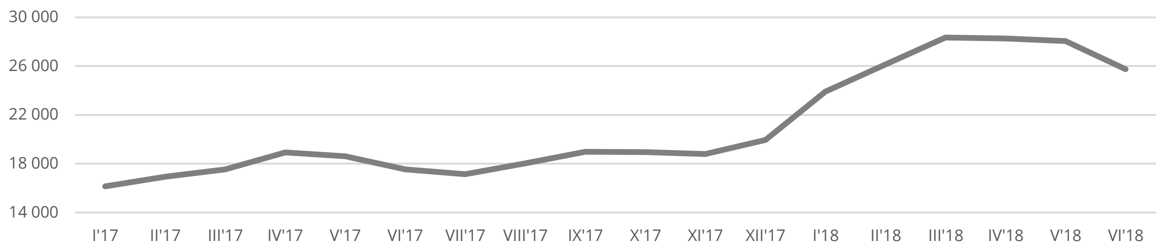
The average price of **nickel** in the first half of 2018 amounted to 13 871 USD/t, meaning an increase of more than 42% as compared to the corresponding period of 2017 (9 761 USD/t). In the first half of 2018 nickel was the best asset amongst primary metals in terms of rate of return. This increase in prices was associated with favourable fundamentals in the steel sector, a drop in inventories in LME warehouses and an increase in potential demand by the dynamically developing electric automobiles sector.

Chart 4. Average monthly nickel price on the London Metal Exchange (USD/t)



Initially in 2018, there was a systematic increase in **molybdenum** prices, mainly due to continued improvement in the fundamental situation. Supply-side weakness on the domestic Chinese market (it should be remembered that molybdenum is one of the few metals in respect of which China may be independent) alongside steadily rising demand, was offset by a greater import of material from South America. Nevertheless, at the end of the first half market supply grew which, despite the revival in the oil industry owned by the main recipients of molybdenum, partially resulted in a slowdown in further price growth. The average price of molybdenum in the first half of 2018 amounted to 21 844 USD/t, meaning a more than 38% increase as compared to the corresponding period of 2017 (15 806 USD/t).

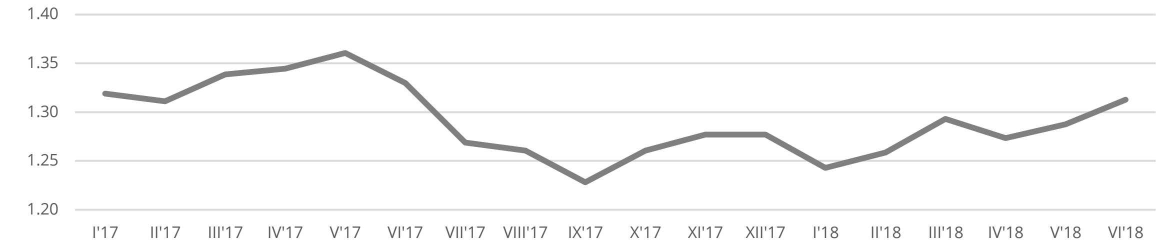
Chart 5. Average monthly molybdenum price per CRU International (USD/t)



The increase in commodities prices had a positive impact on the Canadian dollar (CAD) and the Chilean peso (CLP), which appreciated compared to the USD on a year-on-year basis. However, despite the continued positive trend on the commodities market, the strengthening of the CAD and CLP compared to the USD was halted, and calculating from the start of 2018 these currencies depreciated compared to the USD.

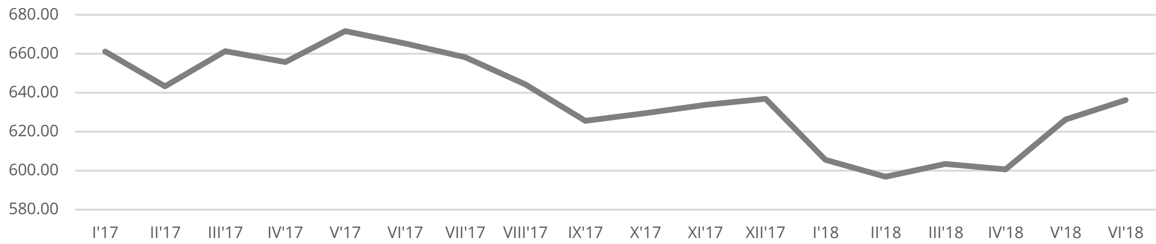
The average **USD/CAD exchange rate** (per the Bank of Canada) in the first half of 2018 amounted to 1.2781 and was 4.2% lower compared to the corresponding period of 2017 (1.3344).

Chart 6. Average monthly USD/CAD exchange rate per the Bank of Canada



The average **USD/CLP exchange rate** (per the Bank of Chile) in the first half of 2018 amounted to 612 and was 7.4% lower than that in the first half of 2017 (660).

Chart 7. Average monthly USD/CLP exchange rate per the Bank of Chile



The macroeconomic factors of the greatest significance for the operations of the Group are presented in the following table.

Table 1. Macroeconomic factors significant for the operations of the KGHM Polska Miedź S.A. Group

	Unit	1st half 2018	1st half 2017	Change (%)	2Q 2018	1Q 2018
Average copper price on the LME	USD/t	6 917	5 749	+20.3	6 872	6 961
Average silver price per the LBM	USD/oz t	16.65	17.32	(3.9)	16.53	16.77
Average nickel price on the LME	USD/t	13 871	9 761	+42.1	14 476	13 276
Average molybdenum price per the CRU	USD/lb	21 844	15 806	+51.8	26 000	17 754
Average USD/PLN exchange rate per the NBP	USD/PLN	3.49	3.95	(11.6)	3.58	3.40
Average USD/CAD exchange rate per the Bank of Canada	USD/CAD	1.28	1.33	(3.8)	1.29	1.26
Average exchange rate per the Bank of Chile	USD/CLP	612	660	(7.3)	621	602

3. Operating results of the segment KGHM Polska Miedź S.A.

3.1. PRODUCTION

Table 2. Production results of KGHM Polska Miedź S.A.

	Unit	1st half 2018	1st half 2017	Change (%)	2Q 2018	1Q 2018
Mined ore (dry weight)	mn t	15.3	16.0	(4.4)	7.6	7.7
Copper content in ore	%	1.51	1.50	+0.7	1.52	1.50
Production of copper in concentrate	kt	205.0	212.0	(3.3)	102.3	102.7
Production of silver in concentrate	t	639.5	659.7	(3.1)	317.7	321.8
Production of electrolytic copper	kt	227.5	264.2	(13.9)	116.7	110.8
- including from own concentrate	kt	171.3	183.8	(6.8)	85.3	86.0
Production of metallic silver	t	478.4	591.8	(19.2)	239.1	239.3
Production of gold	koz t	38.4	55.4	(30.7)	20.1	18.3

As compared to the Company's budgetary assumptions for the first half of 2018, ore extraction was higher by 1% alongside an improvement in the quality of ore extracted by 2% (planned copper content: 1.48%). As a result of these factors, production of copper in concentrate was higher than assumed by 6.6 thousand tonnes. There was also an increase in the production of electrolytic copper by 3.7 thousand tonnes and metallic silver by 13.6 tonnes as compared to the planned amounts.

In the first half of 2018, there was a planned decrease in ore extraction (dry weight) as compared to the corresponding period of 2017. Copper content in ore achieved the level of 1.51%. In 2018 there was an increase in gas-, geological- and temperature-related hazards, which could lead to a slowdown in mining progress.

Production of copper in concentrate was lower by around 7 thousand tonnes compared to the first 6 months of 2017 and was due to processing a lower amount of feed.

Compared to the corresponding period of 2017, there was a decrease in electrolytic copper production by 36.7 thousand tonnes (14%) which was due to the maintenance shutdown of the concentrate smelting installation at the Głogów II Copper Smelter and Refinery.

On 25 June concentrate was charged to the flash furnace, which finally ended the maintenance shutdown of the Głogów II Copper Smelter and Refinery. Production re-commenced 8 days sooner than projected by the initial schedules.

The lower production of metallic silver in the first half of 2018 was a result of the lower production of cathodes and of the three-week maintenance shutdown of the Precious Metals Plant at the Głogów Copper Smelter and Refinery in June.

3.2. REVENUES

Table 3. Revenues from contracts with customers of KGHM Polska Miedź S.A.

	Unit	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
Revenues from contracts with customers, including:	**mn PLN**	**7 189**	**7 701**	**(6.6)**	**3 983**	**3 206**
- copper*	mn PLN	5 691	5 773	(1.4)	3 166	2 525
- silver*	mn PLN	930	1 215	(23.5)	538	392
Copper sales volume	kt	230	245	(6.1)	128	102
Silver sales volume	t	486	555	(12.4)	279	207

** Reflects sales of copper concentrate*

Revenues in the first half of 2018 amounted to PLN 7 189 million and were lower than in the corresponding period of 2017 by 7%. The main reasons for the decrease in revenues were:

- a decrease in the volume of copper, silver and gold sales, and
- a less favourable for KGHM Polska Miedź S.A. USD/PLN exchange rate (-12%),

which were not offset by 20% higher copper prices.

3.3. COSTS

Table 4. Costs of KGHM Polska Miedź S.A.

	Unit	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
Cost of sales, selling costs and administrative expenses	mn PLN	6 023	5 966	+1.0	3 337	2 686
Expenses by nature	mn PLN	6 763	6 735	+0.4	3 342	3 421
Pre-precious metals credit unit cost of copper production from own concentrate*	PLN/t	23 722	21 627	+9.7	24 525	22 924
Total unit cost of electrolytic copper production from own concentrate	PLN/t	17 813	14 471	+23.1	17 877	17 749
- including the minerals extraction tax	PLN/t	4 095	4 177	(2.0)	4 290	3 901
C1 cost**	USD/lb	1.90	1.33	+42.9	1.96	1.83***

** Unit cost prior to decrease by the value of anode slimes containing, among others, silver and gold*
*** Cash cost of concentrate production reflecting the minerals extraction tax, plus administrative expenses and smelter treatment and refining charges (TC/RC), less depreciation/amortisation and the value of by-product premiums, calculated for payable copper in concentrate*
**** C1 cost for the 1st quarter was adjusted by the change in the value of depreciation/amortisation adjusting the cash cost of producing concentrate*

The Parent Entity's cost of sales, selling costs and administrative expenses (total cost of products, merchandise and materials sold, selling costs and administrative expenses) in the first half of 2018 amounted to PLN 6 023 million and was similar to the level recorded in the corresponding period of 2017.

In the first half of 2018, expenses by nature were higher by PLN 28 million as compared to the first half of 2017, alongside a higher minerals extraction tax by PLN 29 million and alongside lower costs of consumption of purchased metal-bearing materials by PLN 282 million (due to the lower volume of consumption by 14 thousand tonnes of Cu and a 3% higher purchase price).

The increase in expenses by nature, after excluding the purchased metal-bearing materials and minerals extraction tax, amounted to PLN 281 million and was mainly due to higher labour costs by PLN 120 million (a higher provision for future employee benefits and higher remuneration), higher depreciation/amortisation by PLN 49 million and higher costs of external services by PLN 75 million mainly due to higher maintenance and conservation expenses as well as mine development work.

C1 cost in the first half of 2018 amounted to 1.90 USD/lb and was higher than in the corresponding period of 2017 by 43%. The increase in cost was due to a higher minerals extraction tax: in the first half of 2017, 0.49 USD/lb; in the first half of 2018, 0.59 USD/lb (+20%;). C1 cost excluding the minerals extraction tax amounted to respectively: in the first half of 2017, 0.84 USD/lb and in the first half of 2018, 1.31 USD/lb. The increase in cost was due to lower production of payable copper in concentrate (-4%) as well as to the weakening of the USD versus the PLN (-12%).

The pre-precious metals credit unit cost of electrolytic copper production from own concentrate (unit cost prior to decrease by the value of anode slimes containing, among others, silver and gold) amounted to 23 722 PLN/t (in the corresponding period of 2017, 21 627 PLN/t) and was higher by 9.7% mainly due to a decrease in the volume of copper production from own concentrate (-7%, or 12.6 thousand tonnes of Cu) and an increase in expenses by nature.

The total unit cost of electrolytic copper production from own concentrate amounted to 17 813 PLN/t (in the first half of 2017, 14 471 PLN/t). The higher rate of increase of the total unit cost as compared to the pre-precious metals credit unit cost is due to the lower valuation of anode slimes in the current year resulting from the decrease in silver prices and the decrease in the content of silver in own concentrate, which in turn resulted from the instability in precious metals content in slimes due to the consumption of previously stored anode inventories with a varying silver content during the maintenance shutdown at the Głogów II Copper Smelter and Refinery.

3.4. FINANCIAL PERFORMANCE

Table 5. Basic items of the statement of profit or loss of KGHM Polska Miedź S.A. *(in PLN million)*

	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
Revenues from contracts with customers, including:	**7 189**	**7 701**	**(6.6)**	**3 983**	**3 206**
- adjustment to revenues due to hedging transactions	75	4	×18.8	75	-
Cost of sales, selling costs and administrative expenses	**(6 023)**	**(5 966)**	**+1.0**	**(3 337)**	**(2 686)**
- including the mineral extraction tax	(801)	(719)	+11.4	(447)	(354)
Profit on sales (EBIT)	**1 166**	**1 735**	**(32.8)**	**646**	**520**
Other operating income / (costs), including:	**708**	**(597)**	**×**	**625**	**83**
- reversal of allowances for impairment of loans due to restructuring of intra-group financing	778	N/A*	×	-	778
- losses due to the initial recognition of POCI loans due to restructuring of intra-group financing	(763)	N/A*	×	-	(763)
- reversal of allowances for impairment of loans measured at amortised cost	171	N/A*	×	136	35
- allowances for impairment of loans	(44)	N/A*	×	(42)	(2)
- exchange differences on assets and liabilities other than borrowings	327	(835)	×	451	(124)
- dividend income	239	4	×59.8	239	-
- provisions recognised	(149)	(10)	×14.9	(148)	(1)
- interest on loans granted and other financial receivables	126	184	(31.5)	69	57
- gains/(losses) on changes in fair value of financial assets measured at fair value through profit or loss	41	N/A*	×	(72)	113
- measurement and realisation of derivatives	(28)	68	×	(6)	(22)
- other	10	(8)	×	(2)	12
Finance income / (costs), including:	**(596)**	**691**	**×**	**(720)**	**124**
- foreign exchange differences on borrowings	(531)	812	×	(681)	150
- interest on borrowings	(58)	(58)	-	(34)	(24)
- bank fees and charges on borrowings	(12)	(14)	(14.3)	(6)	(6)
- measurement of derivatives	26	(27)	×	11	15
- other	(21)	(22)	(4.5)	(10)	(11)
Profit before income tax	**1 278**	**1 829**	**(30.1)**	**551**	**727**
Income tax expense	(291)	(519)	(43.9)	(94)	(197)
Profit for the period	**987**	**1 310**	**(24.7)**	**457**	**530**
Depreciation/amortisation recognised in profit or loss	534	496	+7.7	283	251
EBITDA**	1 700	2 231	(23.8)	929	771
Adjusted EBITDA* **	**1 700**	**2 231**	**(23.8)**	**929**	**771**
EBITDA margin	**24%**	**29%**	**(17.2)**	**23%**	**24%**

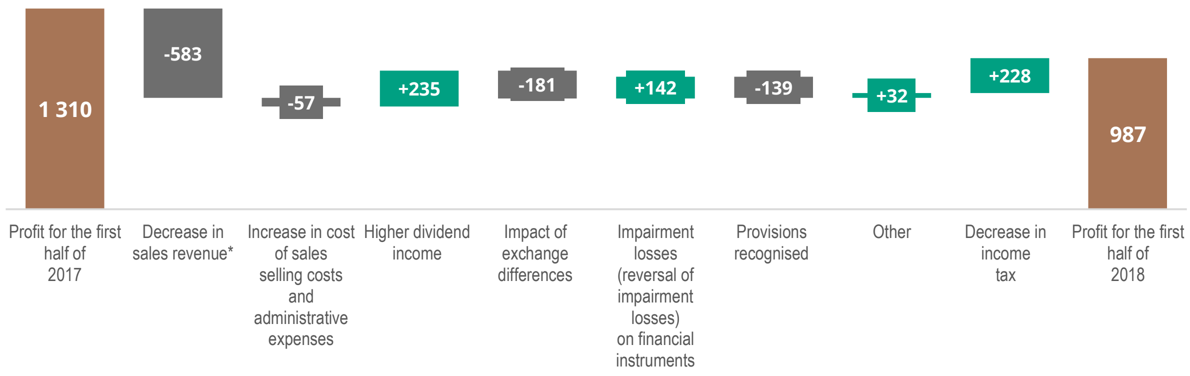
** „NA" – not applicable – items which, in the first half of 2017, were not measured in accordance with principles arising from the application, from 1 January 2018, of IFRS 9*
*** EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)*
**** Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets, recognised in cost of sales, selling costs and administrative expenses)*

Table 6. Main reasons for the change in profit/(loss) of KGHM Polska Miedź S.A.

Item	Impact on change in result (in PLN million)	Description
Decrease in revenues from contracts with customers (excluding the impact of hedging transactions) by PLN 583 million	(946)	A decrease in revenues due to a lower volume of sales of copper (-11%), silver (-19%) and gold (-33%)*
	+902	An increase in revenues due to higher prices of copper by 20% and gold by 6% alongside 4% lower silver prices
	(731)	A decrease in revenues from sales of basic products (Cu, Ag, Au) due to a less favourable average annual USD/PLN exchange rate (a change from 3.95 to 3.49 USD/PLN)
	+192	A change in other revenues from contracts with customers, including higher revenues from the sale of copper concentrate (+PLN 244 million) alongside lower revenues from the sale of merchandise and materials (-PLN 13 million)
Increase in cost of sales, selling costs and administrative expenses by PLN 57 million**	(82)	An increase in the minerals extraction tax from PLN 719 million in the first half of 2017 to PLN 801 million after the first 6 months of 2018, due to higher PLN-expressed copper prices
	+25	A decrease in other costs
Higher dividend income (+PLN 235 million)	+235	An increase in dividend income from PLN 4 million to PLN 239 million
Impact of exchange differences (-PLN 181 million)	+1 162	A change in the result due to exchange differences in other operating activities
	(1 343)	A change in the result due to exchange differences on borrowings (presented in finance costs)
Provisions recognised (-PLN 139 million)	(139)	An increase in the level of provisions recognised, including mainly due to litigation and claims involving rationalisation and inventions (PLN 96 million) and the property tax on mining excavations (PLN 47 million)
A change in the balance of income and costs due to interest on borrowings and other financial receivables (-PLN 58 million)	(58)	A decrease in income due to interest on loans granted
	-	No change in the level of interest costs on borrowings
Impact of hedging transactions (+PLN 28 million)	+71	An increase in positive adjustments to sales revenue due to the settlement of hedging transactions from PLN 4 million to PLN 75 million
	+16	A change in the result due to the measurement of derivatives from PLN 39 million to PLN 55 million
	(59)	A change in the result due to the realisation of derivatives from PLN 2 million to -PLN 57 million
Other impairment losses (reversal of impairment losses) on financial instruments (+PLN 127 million)***	+171	Reversal of allowances for impairment of loans measured at amortised cost
	(44)	Allowances for impairment of loans
Gains/(losses) on changes in fair value of financial assets measured at fair value through profit or loss (+PLN 41 million)***	+41	In 2017 this item did not exist due to the change from 1 January 2018 in the classification of financial equity instruments pursuant to IFRS 9
Impairment losses (reversal of impairment losses) on financial instruments due to restructuring of borrowings (+PLN 15 million)***	+778	Reversal of allowances for impairment of loans due to restructuring of intra-group financing
	(763)	Loss due to the initial recognition of POCI loans due to restructuring of intra-group financing
Decrease in income tax (+PLN 228 million)	+228	The lower tax results from the lower tax base

** Excluding revenues from copper concentrate sales*
*** Cost of products, merchandise and materials sold plus selling costs and administrative expenses*
*** Items which, in the first half of 2017, were not measured in accordance with principles arising from the application, from 1 January 2018, of IFRS 9*

Chart 8. Change in profit for the period of KGHM Polska Miedź S.A. *(in PLN million)*



** excluding adjustments due to hedging transactions*

3.5. CASH EXPENDITURES ON PROPERTY, PLANT AND EQUIPMENT

In the first half of 2018, cash expenditures on property, plant and equipment and intangible assets amounted to PLN 961 million. Capital expenditures on property, plant and equipment and intangible assets amounted to PLN 754 million (excluding deliveries in transit), meaning 28% of the Budget targets for 2018 have been achieved, while 91% of the target schedule has been achieved. The higher cash expenditures as compared to capital expenditures in the first half of 2018 are due to the realisation of unsettled investment liabilities, in accordance with contractual payment deadlines.

Table 7. Structure of expenditures on property, plant and equipment and intangible assets by Division *(in PLN million)*

	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
Mining	551	447	+23.3	300	251
Metallurgy	197	322	(38.8)	119	78
Other activities	6	8	(25.0)	5	1
Development work - uncompleted	-	3	×	-	-
Total	**754**	**780**	**(3.3)**	**424**	**330**

Table 8. Structure of expenditures on property, plant and equipment and intangible assets by analytical category *(in PLN million)*

	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
Replacement of equipment	281	252	+11.5	171	110
Maintaining mine production	164	87	+88.5	93	71
Development	309	438	(29.5)	160	149
Development work - uncompleted	-	3	×	-	-
Total	**754**	**780**	**(3.3)**	**424**	**330**

Under maintenance projects, execution of the project „Ensuring dam stability" at the Tailings Division was deferred to subsequent years (with respect to construction of support for the northern dam).

Investment activities are aimed at carrying out projects which are classified under one of the following three categories:

– **Development projects**, aimed at increasing production volume of the core business, maintaining production costs and adaptation projects aimed at adapting the company's operations to changes in standards, laws and regulations, including those related to environmental protection, represent 41% of total planned expenditures,
– **Replacement projects**, aimed at maintaining production equipment in a non-deteriorated condition which guarantees the achievement of on-going production tasks, represent 37.2% of total planned expenditures,
– **Maintenance projects**, ensuring necessary development of infrastructure to match mine advancement and the continuous removal of waste to ensure mine production at the level set forth in the plan of mining operations, represent 21.8% of total planned expenditures.

Information on the advancement of key investment projects may be found in part 1.6 of this report.

4. Operating results of the segment KGHM INTERNATIONAL LTD.

4.1. PRODUCTION

Table 9. Production of KGHM INTERNATIONAL LTD.

	Unit	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
Payable copper, including:	kt	42.6	38.7	+10.1	22.5	20.1
- Robinson mine (USA)	kt	28.8	23.7	+21.5	15.1	13.7
- Sudbury Basin mines (CANADA) *	kt	3.6	4.3	(16.3)	1.8	1.8
Payable nickel	kt	0.4	0.6	(33.3)	0.2	0.2
Precious metals (TPM), including:	koz t	34.6	35.8	(3.4)	18.8	15.8
- Robinson mine (USA)	koz t	20.3	15.5	+31.0	10.6	9.7
- Sudbury Basin mines (CANADA) *	koz t	14.3	20.3	(29.6)	8.2	6.1

** Morrison and McCreedy West mines in the Sudbury Basin*

Copper production in the segment KGHM INTERNATIONAL LTD. in the first half of 2018 amounted to 42.6 thousand tonnes, or an increase by 3.9 thousand tonnes (+10%) compared to the corresponding prior-year period.

The increase in copper production in this segment was due to the Robinson mine in which, due to the extraction of better quality ore in the first half of 2018 (an increase in Cu content by 19%) and improved recovery (+3%) the production of this metal increased by 5.1 thousand tonnes (+22%). As a result of an increase in gold recovery by this mine, TPM production in the mine was higher by 4.8 thousand troy ounces (+31%).

The decrease in copper production by 0.7 thousand tonnes (-16%) and in precious metals by 6.0 thousand troy ounces (-30%) in the Sudbury Basin mines was due to the extraction of ore with lower metals content, which was partially offset by an increase in extraction volume.

4.2. REVENUES

Table 10. Volume and sales revenue of KGHM INTERNATIONAL LTD. *(in USD million)*

	Unit	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
Revenues from contracts with customers*, including:	**mn USD**	**369**	**303**	**+21.8**	**189**	**180**
- copper	mn USD	240	187	+28.3	132	108
- nickel	mn USD	6	6	0.0	3	3
- precious metals (TPM)	mn USD	39	45	(13.3)	19	20
Copper sales volume	kt	38.4	36.4	+5.5	21.1	17.3
Nickel sales volume	kt	0.4	0.6	(33.3)	0.2	0.2
Precious metals (TPM) sales volume	koz t	31.6	33.7	(6.2)	17.7	13.9

**reflects processing premium*

Table 11. Sales revenue of KGHM INTERNATIONAL LTD. *(in PLN million)*

	Unit	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
Revenues from contracts with customers*, including:	**mn PLN**	**1 298**	**1 181**	**+9.9**	**689**	**609**
- copper	mn PLN	845	729	+15.9	480	365
- nickel	mn PLN	22	23	(4.3)	11	11
- precious metals (TPM)	mn PLN	137	175	(21.7)	69	68

** reflects processing premium*

The sales revenue of the segment KGHM INTERNATIONAL LTD. in the first half of 2018 increased by USD 66 million (+22%) as a result of improved macroeconomic conditions, a higher copper sales volume and higher revenues of a company operating under the brand of DMC Mining Services („DMC").

Revenues from sales of copper amounted to USD 240 million, and increased by USD 53 million compared to the corresponding prior-year period (+28%) as a result of an increase in the effective sales price of this metal by 17% (6 834 USD/t in the first half of 2018 compared to 5 842 USD/t in the first half of 2017) as well as a higher sales volume by 6%.

The decrease in revenues from sales of precious metals by USD 6 million (-13%) was mainly a result of the recognition of a lower value of deferred revenues of the Sudbury Basin mines (calculation matched to the lower level of precious metals production as well as to IFRS 15).

The sales revenue of DMC increased by USD 32 million, as a result of realisation of a contract in the United Kingdom. Revenues from services rendered for Sierra Gorda S.C.M. were lower by USD 11 million.

4.3. COSTS

Table 12. C1 unit cost of KGHM INTERNATIONAL LTD.

	Unit	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
C1 unit cost*	USD/lb	1.86	2.02	(7.9)	1.84	1.89

** C1 unit production cost of copper - cash cost of payable copper production, reflecting costs of ore extraction and processing, the minerals extraction tax, transport costs, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value*

The weighted average unit cash cost of copper production for all operations in the segment KGHM INTERNATIONAL LTD. in the first half of 2018 amounted to 1.86 USD/lb, or a decrease by 8% compared to the corresponding prior-year period. The main factor responsible for the lower cost was the Robinson mine, in which operating costs were lower, with higher copper sales volume as well as revenues from sales of precious metals, which decrease C1.

4.4. FINANCIAL PERFORMANCE

Table 13. Financial results of KGHM INTERNATIONAL LTD. *(in USD million)*

	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
Revenues from contracts with customers	369	303	+21.7	189	180
Cost of sales, selling costs and administrative expenses*	(324)	(277)	+17.0	(181)	(143)
Profit on sales (EBIT)	**45**	**26**	**+73.1**	**8**	**37**
Profit/(loss) before taxation, including:	**(108)**	**(104)**	**+3.8**	**(118)**	**10**
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	(72)	(55)	+30.9	(72)	-
Income tax	(3)	(16)	(81.3)	(2)	(1)
Profit/(loss) for the period	**(111)**	**(120)**	**(7.5)**	**(120)**	**9**
Depreciation/amortisation recognised in profit or loss	(62)	(42)	+47.6	(49)	(13)
EBITDA*	108	68	+58.8	58	50
Adjusted EBITDA**	**108**	**68**	**+58.8**	**58**	**50**
EBITDA margin (%)	**29**	**22**	**+31.8**	**31**	**28**

** Cost of products, merchandise and materials sold, selling costs and administrative expenses*
*** EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)*
**** Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets, recognised in cost of sales, selling costs and administrative expenses)*

Table 14. Financial results of KGHM INTERNATIONAL LTD. *(in PLN million)*

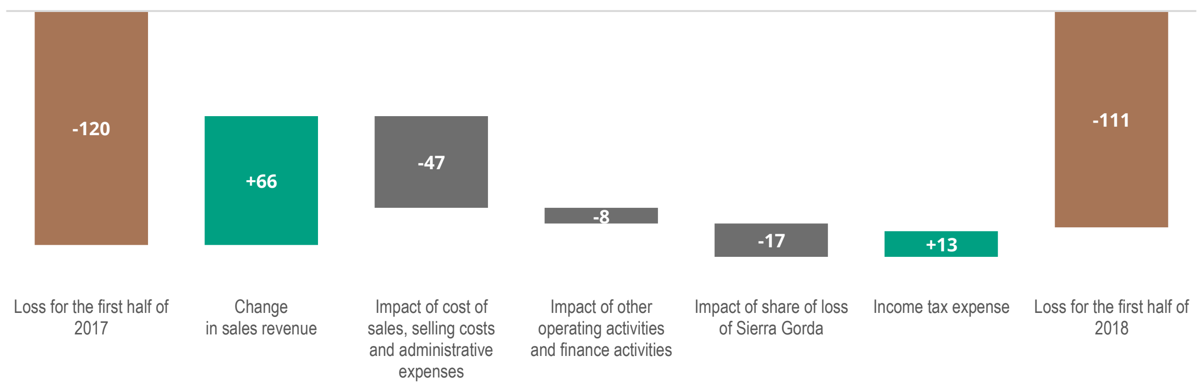
	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
Revenues from contracts with customers	1 298	1 181	+9.9	689	609
Cost of sales, selling costs and administrative expenses*	(1 138)	(1 080)	+5.4	(653)	(485)
Profit on sales (EBIT)	**160**	**101**	**+58.4**	**36**	**124**
Profit/(loss) before taxation, including:	**(381)**	**(404)**	**(5.7)**	**(415)**	**34**
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	(252)	(214)	+17.8	(252)	-
Income tax	(10)	(63)	(84.1)	(5)	(5)
Profit/(loss) for the period	**(391)**	**(467)**	**(16.3)**	**(420)**	**29**
Depreciation/amortisation recognised in profit or loss	(220)	(163)	+35.0	(176)	(44)
EBITDA*	380	264	+43.9	212	168
Adjusted EBITDA**	**380**	**264**	**+43.9**	**212**	**168**
EBITDA margin (%)	**29**	**22**	**+31.8**	**31**	**28**

** Cost of products, merchandise and materials sold, selling costs and administrative expenses*
*** EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)*
**** Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets, recognised in cost of sales, selling costs and administrative expenses)*

Table 15. Main factors impacting the change in financial result of KGHM INTERNATIONAL LTD.

Item	Impact on change of profit or loss (in USD million)	Description
Increase in sales revenue by USD 66 million, including:	+37	Higher revenues due to higher prices of basic products, mainly copper (+USD 36 million)
	+32	Higher revenues earned by DMC as a result of realisation of a contract in the United Kingdom
	(3)	Other factors
Higher cost of sales, selling costs and administrative expenses by USD 47 million, including:	(38)	Higher depreciation/amortisation due to the reversal of an impairment loss on the Robinson mine as at 31 December 2017
	(18)	Higher costs of labour (+USD 9 million) and of materials and energy (+USD 9 million)
	(16)	Higher external services costs due to an increased scope of work carried out by subcontractors of DMC
	+28	Change in inventories
	(3)	Other factors
Impact of other operating activities and finance activities (-USD 8 million), including:	+5	Lower financing costs, mainly interest on loans due to restructuring of borrowings (+USD 9 million)
	(14)	An increase in other operating losses, including reversal of the receivables discount on the service fee from Sierra Gorda S.C.M.
	+1	An increase in other operating income
Share of losses of entities accounted for using the equity method (-USD 17 million)	(17)	Recognition in the first half of 2018 of the share of the loss in Sierra Gorda S.C.M. in the amount of the financing granted, i.e. in the amount of USD 72 million (in the first half of 2017 the share of the loss in Sierra Gorda S.C.M. was also recognised in the amount of the financing granted, i.e. in the amount of USD 55 million)
Income tax	+13	Lower income tax mainly due to lower deferred tax

Chart 9. Change in profit or loss of KGHM INTERNATIONAL LTD. *(in USD million)*



4.5. CASH EXPENDITURES ON PROPERTY, PLANT AND EQUIPMENT

Table 16. Cash expenditures of KGHM INTERNATIONAL LTD. *(in USD million)*

	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
Victoria project	3	3	0	1	2
Sierra Gorda Oxide project	0	1	(100.0)	0	0
Pre-stripping and other	81	54	+50.0	44	37
Ajax project	0	2	(100.0)	0	0
Total	**84**	**60**	**+40.0**	**45**	**39**
Financing for Sierra Gorda S.C.M.	72	55	+30.9	72	-

Table 17. Cash expenditures of KGHM INTERNATIONAL LTD. *(in PLN million)*

	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
Victoria project	10	11	0	3	7
Sierra Gorda Oxide project	0	4	(100.0)	0	0
Pre-stripping and other	287	210	+36.7	161	126
Ajax project	0	8	(100.0)	0	0
Total	**297**	**233**	**+27.5**	**164**	**133**
Financing for Sierra Gorda S.C.M.	252	214	+17.8	252	-

Cash expenditures by the segment KGHM INTERNATIONAL LTD. in the first half of 2018 amounted to USD 84 million, or an increase by USD 24 million compared to the corresponding prior-year period. Nearly 80% of cash expenditures were incurred by the Robinson mine and were mainly due to pre-stripping work in the Ruth pit and geotechnical research.

KGHM INTERNATIONAL LTD. incurred USD 3 million on the Victoria project. Work involved securing existing infrastructure and the project area.

In the first half of 2018, the Sierra Gorda mine was financed in the amount of USD 72 million, mainly to cover the repayment of the bank loan drawn to build the mine.

5. Operating results of the segment Sierra Gorda S.C.M.

The segment Sierra Gorda S.C.M. is a joint venture (under the JV company Sierra Gorda S.C.M.) of KGHM INTERNATIONAL LTD. (55%) and Sumitomo Group companies (45%).

The following production and financial data are presented on a 100% basis for the joint venture and proportionally to the interest in the company Sierra Gorda S.C.M. (55%), pursuant to the methodology of presentation of data in note 2.2.

5.1. PRODUCTION

In the second quarter of 2018, Sierra Gorda S.C.M. maintained production of copper and molybdenum above the results achieved in the first three months of 2018. Despite this, during the entire first half of 2018 there was a decrease compared to the corresponding period of 2017.

Table 18. Production* of copper, molybdenum and precious metals by Sierra Gorda S.C.M.

	Unit	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
Copper production	kt	44.6	49.4	(9.7)	22.8	21.8
Copper production – segment (55%)	kt	24.5	27.2	(9.7)	12.5	12.0
Molybdenum production	mn lbs	13.9	23.6	(41.1)	6.7	7.2
Molybdenum production – segment (55%)	mn lbs	7.7	13.0	(41.1)	3.7	4.0
TPM production – gold	koz t	17.0	24.5	(30.6)	8.6	8.4
TPM production – gold – segment (55%)	koz t	9.3	13.5	(30.6)	4.7	4.6

** Payable metal in concentrate.*

In 2018 Sierra Gorda S.C.M. continued to introduce improvements enhancing efficiency in the ore processing and floatation stage, which enabled among others a decrease in the number of breakdowns and extension of inter-maintenance periods. The changes introduced involved in particular the molybdenum installation, and as a result molybdenum production was stabilised and recovery increased, which in the first half of 2018 was higher than the amount recorded in the corresponding period of 2017 by 7.6 percent.

Despite the improvements introduced there was a decrease in the production of payable copper by 10% and payable molybdenum by 41%. This is primarily the result of working in a section of the deposit containing a lower amount of metals, reflected in the drop in Cu content in processed ore by 6% and Mo by 48%. Moreover, some of the material processed came from a so-called transition zone and, due to the nature of the ore, there was a slight fall in copper recovery.

5.2. REVENUES

In the first half of 2018, sales revenues amounted to USD 469 million, of which 54% represented copper sales revenue, and 41% molybdenum sales revenue. Sales revenue of the segment, pursuant to the interest held by KGHM Polska Miedź S.A. (55%), amounted to PLN 908 million.

Table 19. Sales volume and revenue* of Sierra Gorda S.C.M.

	Unit	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
Revenues from contracts with customers, including:	**mn USD**	**469**	**405**	**+15.8**	**211**	**258**
- copper	mn USD	253	262	(3.4)	113	140
- molybdenum	mn USD	190	106	+79.2	88	102
Copper sales volume	kt	41.1	50.0	(17.8)	18.2	22.9
Molybdenum sales volume	mn lbs	15.1	13.1	+15.3	7.7	7.4
Revenues from contracts with customers - segment (55% interest)	**mn PLN**	**908**	**868**	**+4.6**	**427**	**481**

** revenues from metals sales reflecting treatment/refining and other charges*

The increase in revenues expressed in USD by 64 million (+16%) was mainly due to higher molybdenum and copper prices and higher molybdenum sales volume. The individual factors impacting the increase in revenues are presented in Table 23.

5.3. COSTS

The cost of sales, selling costs and administrative expenses incurred by the company Sierra Gorda S.C.M. amounted to USD 429 million, of which USD 31 million were selling costs, and USD 20 million administrative expenses. The costs of the segment Sierra Gorda, proportionally to the interest held (55%) amounted to PLN 831 million.

Table 20. Costs and unit production cost of copper (C1) of Sierra Gorda S.C.M.

	Unit	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
Cost of sales, selling costs and administrative expenses	mn USD	429	406	+5.7	186	243
Cost of sales, selling costs and administrative expenses – segment (55% interest)	mn PLN	831	871	(4.6)	378	453
C1 unit cost*	**USD/lb**	**1.16**	**1.81**	**(35.9)**	**0.83**	**1.43**

** C1 unit production cost of copper - cash cost of payable copper production, reflecting costs of ore extraction and processing, the minerals extraction tax, transport costs, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value*

In comparison to the first half of 2017, the cost of sales, selling costs and administrative expenses rose by USD 23 million, or by 6%, mainly due to higher depreciation/amortisation costs (+42%). The increase in this regard was due to the acceleration, as compared to previous assumptions, of investments related with gaining access to the ore in one of the mining zones. As a result the planned period of mining of this zone was shortened, which substantially affected the level of depreciation. There was also an increase with respect to certain categories of expenses by nature, including labour costs (higher employment and a less favorable exchange rate), energy costs (higher consumption due to the hardness of the processed ore) and fuel and oil costs (higher prices and consumption of diesel fuel due to higher extraction of ore and waste rock).

At the same time the following costs were lower: external services (contractual rates were altered, certain services were internalised, a lower scope of work related to expanding the tailings facility), molybdenum conversion (better quality concentrate) and materials and spare parts.

With respect to cash costs, which do not include depreciation/amortisation, there was substantial improvement, as shown by the drop in mining costs per tonne of extracted material as well as the decrease in processing costs per tonne of ore, respectively by 8% and 4%. There was also a decrease in the unit cost of copper production (C1) from 1.81 USD/lb in the first half of 2017 to 1.16 USD/lb in the first half of 2018, though in this case the main factor in the drop was the increase in prices and in the amount of molybdenum sold (revenues from the sale of Mo together with revenues from the sale of precious metals are deducted when calculating C1).

5.4. FINANCIAL PERFORMANCE

Profit or loss

In the first half of 2018, EBITDA amounted to USD 172 million, of which proportionally to the interest held (55%) PLN 333 million relates to the KGHM Group.

Table 21. Results of Sierra Gorda S.C.M. on a 100% basis (*in USD million*)

	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
Revenues from contracts with customers	469	405	+15.8	211	258
Cost of sales, selling costs and administrative expenses	(429)	(406)	+5.7	(186)	(243)
Profit/(loss) on sales (EBIT)	40	(1)	x	25	15
Profit/(loss) for the period	**(122)**	**(149)**	**(18.1)**	**(56)**	**(66)**
Depreciation/amortisation recognised in profit or loss	(132)	(93)	+41.9	(60)	(72)
EBITDA*	**172**	**91**	**+89.0**	**85**	87
Adjusted EBITDA (%) **	**172**	**91**	**+89.0**	**85**	87

** EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)*
*** Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)*

Table 22. Results of the segment Sierra Gorda S.C.M. proportionally to the interest held - 55% (*in PLN million*)

	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
Revenues from contracts with customers	908	868	+4.6	427	481
Cost of sales, selling costs and administrative expenses	(831)	(871)	(4.6)	(378)	(453)
Profit/(loss) on sales (EBIT)	77	(3)	x	49	28
Loss for the period	**(236)**	**(320)**	**(26.3)**	**(113)**	**(123)**
Depreciation/amortisation recognised in profit or loss	(256)	(198)	+29.3	(121)	(135)
EBITDA*	333	195	+70.8	170	163
Adjusted EBITDA **	**333**	**195**	**+70.8**	**170**	**163**
EBITDA margin (%)	**37**	**22**	**+68.2**	**40**	**34**

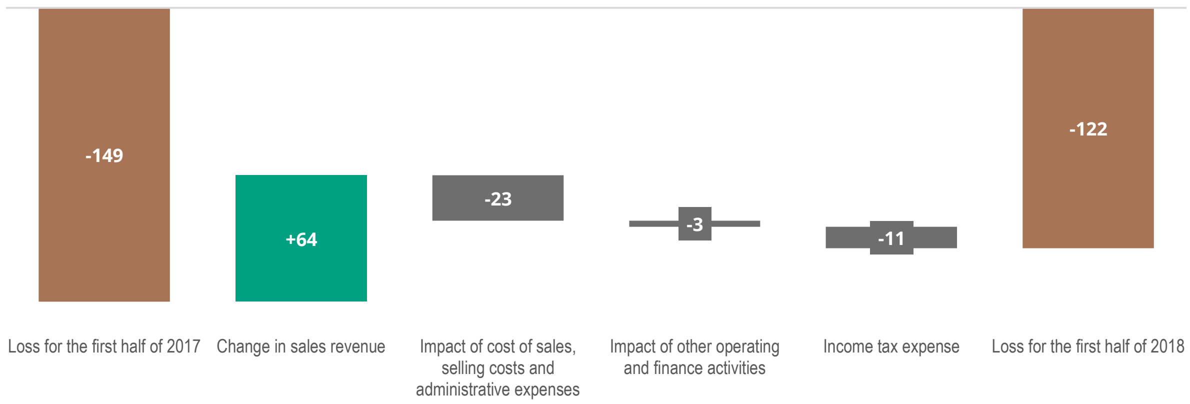
** EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)*
*** Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)*

The increase in EBITDA year-on-year is due to higher revenues, which compared to the first half of 2017 rose by USD 64 million, mainly due to higher prices and a higher molybdenum sales volume as well as to lower costs prior to depreciation/amortisation by USD 16 million. The following table, describing the decrease in the loss by USD 27 million compared to the first half of 2017, summarises the most important factors affecting revenues and costs, and therefore the EBITDA.

Table 23. Main factors impacting the change in financial result of Sierra Gorda S.C.M.

Item	Impact on change of profit or loss (in USD million)	Description
Higher revenues from contracts with customers by USD 64 million, including:	+57	Higher revenues due to higher molybdenum prices
	+46	Higher revenues due to higher copper prices
	+27	Higher revenues due to a higher molybdenum sales volume
	(62)	Lower revenues due to a lower copper sales volume
	(4)	Other factors, including lower revenues from precious metals sales
Higher costs of sales, selling costs and administrative expenses by USD 23 million, including:	(40)	Higher depreciation/amortisation, including mainly amortisation of pre-stripping expenditures
	(17)	Higher costs of energy, fuel, labour and transportation
	(5)	Change in inventories
	+36	Lower costs of external services, materials, spare parts, molybdenum conversion and other
	+3	Higher expenditures on pre-stripping which is subject to capitalisation, and at the same time decreases costs in profit or loss
Impact of other operating activities – an increase in the result by USD 3 million	+3	Generally more favourable exchange differences
Higher finance costs by USD 6 million	(6)	Above all higher accrued interest on Owner loans for mine construction
Income tax	(11)	Lower tax asset due to a lower loss before taxation

Chart 10. Change in profit/loss for the period of Sierra Gorda S.C.M. *(in USD million)*



On a yearly scale Sierra Gorda S.C.M. improved its financial results, achieving a positive result on operating activities and reducing its loss for the period by USD 27 million to the level of -USD 122 million in the first half of 2018. The loss was mainly the result of accrued interest on Owner loans for mine construction.

5.5. CASH EXPENDITURES ON PROPERTY, PLANT AND EQUIPMENT

In the first half of 2018, cash expenditures on property, plant and equipment and intangible assets, presented in Sierra Gorda S.C.M.'s statement of cash flow, amounted to USD 159 million, of which the majority, or USD 115 million (72%) represented expenditures on pre-stripping, with the remainder going to development and the replacement of property, plant and equipment.

Table 24. Cash expenditures of Sierra Gorda S.C.M.

	Unit	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
Cash expenditures on property, plant and equipment	mn USD	159	131	+21.4	84	75
Cash expenditures on property, plant and Equipment – segment (55% interest)	mn PLN	307	282	+8.9	168	139

The increase in cash expenditures (expressed in USD) by 21.4% was mainly in respect of the project to reconstruct the dams of the tailings facility. There was also a slight increase in capitalised pre-stripping costs (+4%) due to the greater scope of work carried out, alongside a drop in the unit mining cost.

The main source of financing investments in the first half was the inflow from operating activities. Due to the June instalment for repaying the loan drawn to build the mine, Sierra Gorda S.C.M. required financing in the form of an increase in share capital in the amount of USD 130 million.

6. Review of consolidated financial performance of the KGHM Polska Miedź S.A. Group

6.1. Financial results

Table 25. Financial results of the Group *(in PLN million)*

	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
Revenues from contracts with customers	9 423	9 713	(3.0)	5 157	4 266
Cost of sales, selling costs and administrative expenses	(8 071)	(7 836)	+3.0	(4 464)	(3 607)
Profit on sales	**1 352**	**1 877**	**(28.0)**	**693**	**659**
Profit/(loss) on involvement in joint ventures	(128)	(54)	×2.4	(209)	81
Other operating income/(costs)	363	(858)	×	554	(191)
Finance income/(costs)	(603)	684	×	(715)	112
Profit/(loss) before income tax	**984**	**1 649**	**(40.3)**	**323**	**661**
Income tax expense	(373)	(595)	(37.3)	(151)	(222)
Profit/(loss) for the period	**611**	**1 054**	**(42.0)**	**172**	**439**
				-	
Adjusted EBITDA*	**2 565**	**2 863**	**(10.4)**	**1 391**	**1 174**
EBITDA margin**	**25%**	**27%**	**(7.4)**	**25%**	**25%**

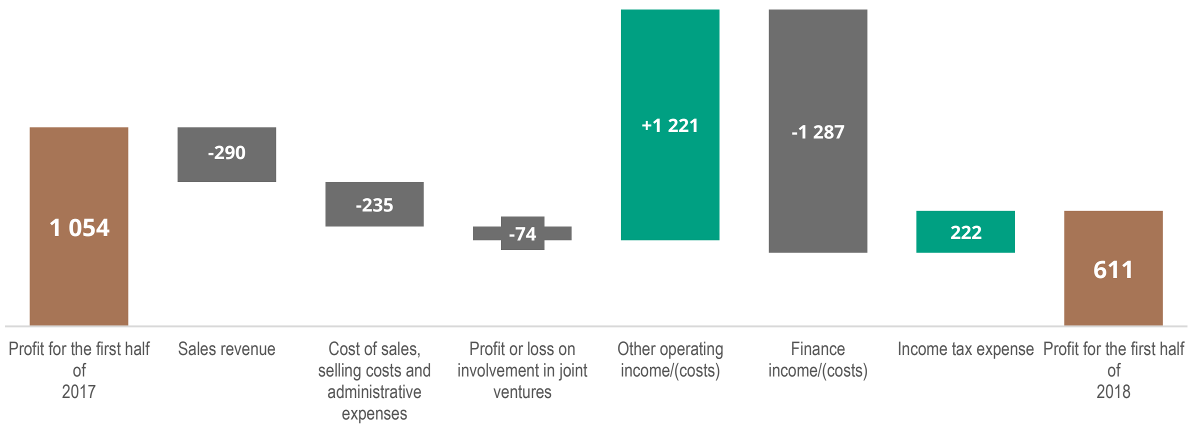
** Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets recognised in cost of sales, selling costs and administrative expenses) according to part 2 of the consolidated financial statements – together with Sierra Gorda S.C.M.*

***EBITDA margin = relationship of adjusted EBITDA to sales revenue. For purposes of calculating the Group's EBITDA margin, consolidated sales revenue was increased by the sales revenue of the segment Sierra Gorda S.C.M.*

Table 26. Main factors impacting the change of the Group's profit or loss

Item	Impact on change of profit or loss (in PLN million)	Description
Revenues from contracts with customers	(290)	A decrease in revenues mainly due to KGHM Polska Miedź S.A. (-PLN 512 million) alongside a simultaneous increase in sales revenue of KGHM INTERNATIONAL LTD. (+PLN 117 million). The detailed reasons for the change in the revenues of both segments are described in parts 3 and 4 of this report.
Cost of sales, selling costs and administrative expenses	(235)	The increase in costs in the consolidated result was mainly due to higher costs in KGHM Polska Miedź S.A. (by PLN 57 million) as well as higher costs in KGHM INTERNATIONAL LTD. (by PLN 58 million) described in greater detail in parts 3 and 4 of this report.
Profit/(loss) on involvement in joint ventures	(74)	The change in profit/(loss) on involvement in joint ventures with respect to Sierra Gorda S.C.M. from -PLN 54 million to -PLN 128 million was due to: – a higher share of losses of joint ventures accounted for using the equity method by PLN 39 million, and – lower interest income on loans granted to a joint venture by PLN 35 million.
Other operating income/(costs)	+1 221	The increase in the result on other operating income/(costs) from -PLN 858 million to PLN 363 million was mainly due to: – a higher result on the exchange differences on assets and liabilities other than borrowings by PLN 1 498 million, mainly with respect to loans to Sierra Gorda S.C.M., – a lower result on the measurement and realisation of derivatives by PLN 74 million, and – higher costs of provisions by PLN 149 million.
Finance income/(costs)	(1 287)	The change in finance income/(costs) from PLN 684 million to -PLN 603 million was mainly due to: – a lower result on the exchange differences on borrowings by PLN 1 348 million, and – a higher result on the measurement of derivatives by PLN 53 million.
Income tax expense	+222	The decrease in income tax was due to a decrease in profit before income tax.

Chart 11. Change in profit or loss in the first half of 2018 *(in PLN million)*



6.2. ASSETS AND LIABILITIES

Table 27. Consolidated assets *(in PLN million)*

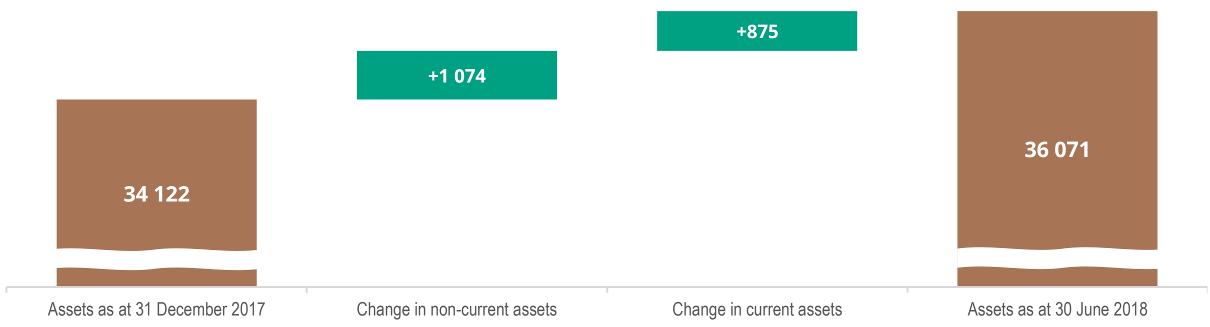
	30.06.2018	31.12.2017	Change (%)	31.03.2018
Mining and metallurgical property, plant and equipment	16 469	16 296	+1.1	16 305
Mining and metallurgical intangible assets	1 557	1 447	+7.6	1 456
Other property, plant and equipment	2 746	2 679	+2.5	2 682
Other intangible assets	207	209	(1.0)	221
Joint ventures accounted for using the equity method	6	8	(25.0)	8
Loans granted to joint ventures	4 316	3 889	+11.0	3 895
Derivatives	329	110	×3.0	213
Other financial instruments measured at fair value	527	614	(14.2)	553
Other financial assets	781	762	+2.5	804
Deferred tax assets	542	389	+39.3	487
Other assets	109	112	(2.7)	111
Non-current assets	**27 589**	**26 515**	**+4.1**	**26 735**
Inventories	5 568	4 562	+22.1	5 468
Trade receivables	1 222	1 522	(19.7)	1 192
Tax assets	226	277	(18.4)	213
Derivatives	158	196	(19.4)	264
Other financial assets	296	265	+11.7	239
Other assets	402	199	×2.0	270
Cash and cash equivalents	610	586	+4.1	523
Current assets	**8 482**	**7 607**	**+11.5**	**8 169**
Total assets	**36 071**	**34 122**	**+5.7**	**34 904**

As at 30 June 2018, total assets in the consolidated statement of financial position amounted to PLN 36 071 million and were higher as compared to 31 December 2017 by PLN 1 949 million.

Non-current assets as at 30 June 2018 amounted to PLN 27 589 million and were higher by PLN 1 074 million as compared to the end of 2017. The increase in non-current assets was mainly due to loans granted to joint ventures by PLN 427 million, property, plant and equipment and intangible assets by PLN 348 million, derivatives by PLN 219 million and deferred tax assets by PLN 153 million.

Current assets increased by PLN 875 million, mainly due to an increase in the value of inventories by PLN 1 006 million and other assets by PLN 203 million, alongside a decrease in trade receivables by PLN 300 million.

Chart 12. Change in assets in the first half of 2018 *(in PLN million)*



Equity and liabilities

Table 28. Consolidated equity and liabilities *(in PLN million)*

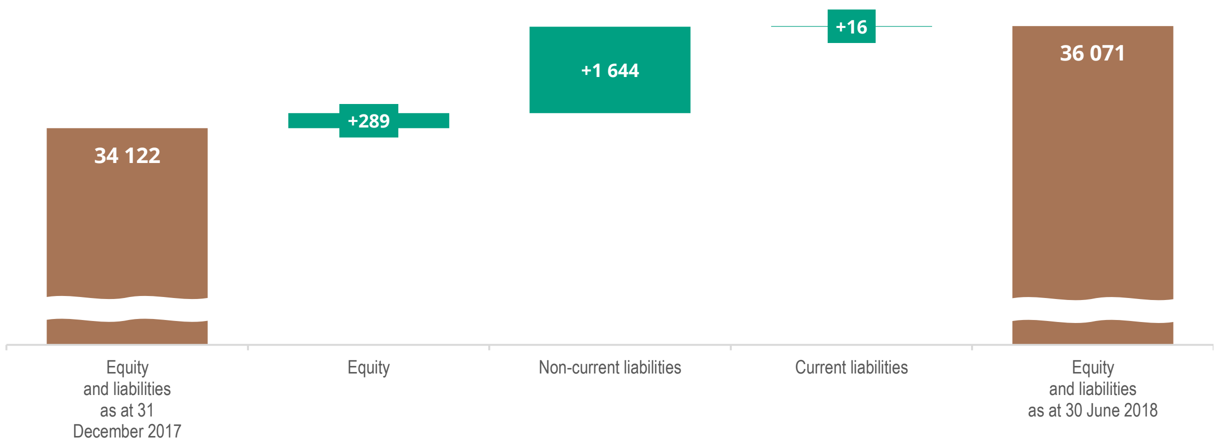
	30.06.2018	31.12.2017	Change (%)	31.03.2018
Share capital	2 000	2 000	-	2 000
Other reserves from measurement of financial instruments	(636)	158	×	(556)
Accumulated other comprehensive income	2 094	2 427	(13.7)	2 313
Retained earnings	14 525	13 109	+10.8	14 354
Equity attributable to shareholders of the Parent Entity	**17 983**	**17 694**	**+1.6**	**18 111**
Equity attributable to non-controlling interest	**91**	**91**	**-**	**90**
Equity	**18 074**	**17 785**	**+1.6**	**18 201**
Borrowings	7 472	6 191	+20.7	5 986
Derivatives	204	208	(1.9)	178
Employee benefits liabilities	2 328	2 063	+12.8	2 234
Provisions for decommissioning costs of mines and other facilities	1 418	1 351	+5.0	1 328
Deferred tax liabilities	495	347	+42.7	431
Other liabilities	605	718	(15.7)	617
Non-current liabilities	**12 522**	**10 878**	**+15.1**	**10 774**
Borrowings	1 151	965	+19.3	1 673
Derivatives	51	110	(53.6)	75
Trade payables	1 394	1 823	(23.5)	1 476
Employee benefits liabilities	820	842	(2.6)	1 110
Tax liabilities	738	630	+17.1	623
Other liabilities and provisions for liabilities and other charges	1 321	1 089	+21.3	972
Current liabilities	**5 475**	**5 459**	**+0.3**	**5 929**
Non-current and current liabilities	**17 997**	**16 337**	+10.2	**16 703**
Total equity and liabilities	**36 071**	**34 122**	**+5.7**	**34 904**

Equity as at 30 June 2018 amounted to PLN 18 074 million and was higher by PLN 289 million than at the end of 2017, mainly due to an increase in retained earnings by PLN 1 416 million alongside a decrease in other reserves from the measurement of financial instruments by PLN 794 million as well as accumulated comprehensive income by PLN 333 million.

Non-current liabilities of the KGHM Polska Miedź S.A. Group as at 30 June 2018 amounted to PLN 12 522 million and were higher by PLN 1 644 million as compared to the end of 2017 mainly due to an increase in non-current borrowings by PLN 1 281 million, employee benefits liabilities by PLN 265 million and deferred tax liabilities by PLN 148 million.

Current liabilities of the KGHM Polska Miedź S.A. Group as at 30 June 2018 amounted to PLN 5 475 million and were higher by only PLN 16 million as compared to the end of 2017.

Chart 13. Change in equity and liabilities in the first half of 2018 *(in PLN million)*



Cash flow

Table 29. Cash flow of the Group *(in PLN million)*

	1st half 2018	1st half 2017	Change (%)	2nd quarter 2018	1st quarter 2018
Profit/(loss) before income tax	984	1 649	(40.3)	323	661
Depreciation/amortisation recognised in profit or loss	864	772	+11.9	514	350
Share of losses of joint ventures accounted for using the equity method	254	215	+18.1	254	
Interest on loans granted to joint ventures	(126)	(161)	(21.7)	(45)	(81)
Interest and other costs of borrowings	70	78	(10.3)	36	34
Impairment losses on non-current assets	14	1	×14.0	4	10
Exchange differences	(52)	173	×	(39)	(13)
Change in provisions	231	19	x12.2	218	13
Change in other receivables and liabilities	89	(203)	×	(84)	173
Change in derivatives	(164)	(86)	+90.7	(105)	(59)
Other adjustments	(7)	(25)	(72.0)	23	(30)
Exclusions of income and costs, total	1 173	783	+49.8	776	397
Income tax paid	(413)	(703)	(41.3)	(246)	(167)
Change in working capital	(1 040)	(537)	+93.7	(138)	(902)
Net cash generated from/(used in) operating activities	**704**	**1 192**	**(40.9)**	**715**	**(11)**
Expenditures on mining and metallurgical assets	(1 153)	(1 111)	+3.8	(552)	(601)
Expenditures on other property, plant and equipment and intangible assets	(121)	(97)	+24.7	(47)	(74)
Acquisition of newly – issued shares of a joint venture	(262)	(206)	+27.2	(262)	-
Other expenses	(46)	(55)	(16.4)	(12)	(34)
Total expenses	(1 582)	(1 469)	+7.7	(873)	(709)
Proceeds	69	22	×3.1	38	31
Net cash used in investing activities	**(1 513)**	**(1 447)**	**+4.6**	**(835)**	**(678)**
Proceeds from borrowings	2 065	1 447	+42.7	934	1 131
Other proceeds	2	2	-	1	1
Total proceeds	2 067	1 449	+42.7	935	1 132
Repayments of borrowings	(1 165)	(1 532)	(24.0)	(673)	(492)
Interest paid and other costs of borrowings	(70)	(81)	(13.6)	(38)	(32)
Other expenses	-	-	×	-	
Total expenses	(1 235)	(1 613)	(23.4)	(711)	(524)
Net cash generated from/(used in) financing activities	**832**	**(164)**	**×**	**224**	**608**
TOTAL NET CASH FLOW	**23**	**(419)**	**×**	**104**	**(81)**
Exchange gains/(losses) on cash and cash equivalents	1	5	(80.0)	(17)	18
Cash and cash equivalents at beginning of the period	586	860	(31.9)	523	586
Cash and cash equivalents at end of the period	**610**	**446**	**+36.8**	**610**	**523**

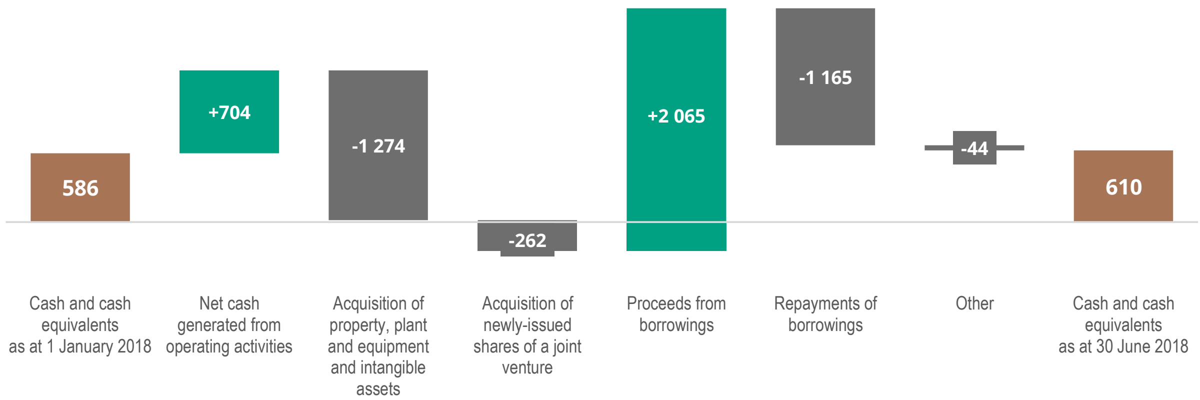
Net cash generated from operating activities in the first 6 months of 2018 amounted to PLN 704 million and was mainly comprised of profit before income tax of PLN 984 million, plus depreciation/amortisation in the amount of PLN 864 million, the share of losses of joint ventures accounted for using the equity method in the amount of PLN 254 million and the change in provisions in the amount of PLN 231 million and the income tax paid in the amount of PLN 413 million and a change in working capital in the amount of PLN 1 040 million.

Net cash used in investing activities in the first half of 2018 amounted to PLN 1 513 million and was mainly comprised of net expenditures on the purchase of mining and metallurgical property, plant and equipment and intangible assets and on other property, plant and equipment and intangible assets in the amount of PLN 1 274 million, as well as the acquisition of newly-issued shares of a joint venture in the amount of PLN 262 million.

Net cash generated from financing activities in the first 6 months of 2018 amounted to PLN 832 million and was mainly comprised of proceeds from borrowings in the amount of PLN 2 065 million as well as repayments of borrowings in the amount of PLN 1 165 million and interest paid in the amount of PLN 70 million.

After accounting for exchange gains/(losses) on cash and cash equivalents, in the first 6 months of 2018 cash and cash equivalents increased by PLN 24 million and at 30 June 2018 amounted to PLN 610 million.

Chart 14. Cash flow in the first half of 2018 *(in PLN million)*



Contingent assets and liabilities

As at 30 June 2018, contingent assets amounted to PLN 598 million and were higher than at the end of 2017 by PLN 69 million. The increase in contingent assets was mainly due to an increase in guarantees received by PLN 44 million.

Contingent liabilities as at 30 June 2018 amounted to PLN 3 065 million and were higher than at the end of 2017 by PLN 267 million. The increase was mainly due to an increase in guarantees by PLN 333 million.

6.3. FINANCING OF GROUP ACTIVITIES

Financial liquidity management within the Group is carried out based on the approved "Financial Liquidity Management Policy in the Group". The goal of the Financial Liquidity Management Policy in the Group is to ensure continuous operations by securing the availability of funds required to achieve the Group's business goals, while optimising the costs incurred to maintain liquidity and maximise profit with excess liquidity. The Financial Liquidity Committee supports the Management Board of the Parent Entity in carrying out this Policy.

Net debt in the Group

As at 30 June 2018, total debt of the Group amounted to PLN 8 019 million, 98% of which was consolidated at the Parent Entity level. The increase in debt in the first half of 2018 by PLN 1 442 million as compared to the end of 2017 was mainly due to the drawing of additional borrowings under an agreement with the European Investment Bank and to a new Credit Agreement, as well as to the increase in the USD/PLN exchange rate. Interest on the financing drawn in the first half of 2018 is based on a fixed interest rate.

The Group's cash and cash equivalents are of a short term nature, and in the first half of 2018 were primarily held in overdraft facilities under the Cash Pool services, which enables the Group to optimise interest income and costs.

Table 30. Net debt structure of the Group *(in PLN million)*

	30.06.2018	31.12.2017	Change (%)
Liabilities due to:	**8 623**	**7 156**	**+20.5**
Bank loans*	6 303	5 179	+21.7
Other loans	2 298	1 967	+16.8
Leases	22	10	×2.2
Free cash and cash equivalents	**604**	**579**	**+4.3**
Net debt	**8 019**	**6 577**	**+21.9**

** presented amounts include the preparation fee paid in the amount of PLN 18 million (at 31 December 2017 in the amount of PLN 21 million), which decreases financial liabilities due to bank loans received*

Sources of financing in the Group

As at 30 June 2018, the Group held open lines of credit and loans with a total available amount of PLN 16 422 million, out of which PLN 8 619 million had been drawn.

Unsecured, revolving syndicated credit facility in the amount of USD 2.5 billion with maturity of 9 July 2021	This financing agreement was signed by the Parent Entity with a syndicate banks group in 2014 in the amount of USD 2.5 billion. The repayment deadline of the credit facility is 9 July 2021. The funds drawn are being used to finance general corporate goals, including the continuation of investment projects and were used to refinance the debt of KGHM INTERNATIONAL LTD.
Investment loans from the European Investment Bank in the total amount of PLN 2.9 billion with a financing period of 12 years	Financing agreement signed by the Parent Entity with the European Investment Bank: – in August 2014 in the amount of PLN 2 billion, which was drawn in the form of three instalments to the full available amount. The deadlines for repaying the instalments drawn are 30 October 2026, 30 August 2028 and 23 May 2029. The funds acquired through this loan are being used to finance the Parent Entity's investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings storage facility, – in December 2017 in the amount of PLN 0.9 billion, with availability of 22 months from the date the agreement was signed. The funds acquired through this loan are being used to finance the Parent Entity's development and replacement projects at various stages of the production line.
Bilateral bank loans in the amount of up to PLN 4.15 billion	The Group has open lines of credit in the form of bilateral agreements in the total amount of PLN 4.15 billion. These are working capital facilities and overdraft facilities with availability of up to 2 years, the maturities of which are successively extended for subsequent periods, as well as long-term investment bank loans. The funds obtained under the aforementioned bank loan agreements are used to finance working capital, are a tool supporting the management of current financial liquidity and support the financing of investments advanced by the Group's companies.

The aforementioned sources fully cover the current, medium- and long-term liquidity needs of the Group.

In the first half of 2018, the Group made use of borrowings which were available from all of the above pillars.

Debt position as at 30 June 2018

The following table presents the structure of borrowings used by KGHM Polska Miedź S.A. and the extent to which they were utilised.

Table 31. Amount available and drawn by the Group *(in PLN million)*

	Amount drawn as at 30.06.18	Amount drawn as at 31.12.17	Change (%)	Amount available as at 30.06.18	Utilisation (%)
Unsecured, revolving syndicated credit facility	4 495	3 483	+29.1	9 360	48.0
Loans	2 298	1 967	+16.8	2 906	79.1
Bilateral bank loans	1 826	1 717	+6.3	4 156	43.9
Total	**8 619***	**7 167***	**+20.3**	**16 422**	**52.5**

** amount drawn includes accrued interest, unpaid as at the reporting date and excludes costs related to entering a syndicated credit facility agreement in the amount of PLN 18 million (at 31 December 2017 in the amount of PLN 21 million), which decrease the initial value of liabilities due to the bank loan.*

Cash pool in the Group

In managing its financial liquidity, the Group utilises tools which support its efficiency. One of the basic instruments used by the Group is the cash pool management system, domestically in PLN, USD and EUR and abroad in USD. The cash pool system is aimed at optimising cash management and limiting interest costs, the effective financing of current needs in terms of working capital and supporting short term financial liquidity in the Group.

Loans granted

As at 30 June 2018, the balance of loans granted by the KGHM Polska Miedź S.A. Group amounted to PLN 4 324 million. This item mainly comprises long-term loans with interest based on a fixed interest rate, granted to finance mining assets in Chile.

Contingent liabilities due to guarantees granted

As at 30 June 2018, the Group held contingent liabilities due to guarantees and letters of credit granted in the total amount of PLN 2 658 million and due to promissory notes liabilities in the amount of PLN 182 million.

Detailed information regarding the amount and nature of contingent liabilities due to guarantees granted may be found in part 4.9 of the half-year condensed consolidated financial statements – Liquidity risk and capital management.

Evaluation of Group liquidity

In the first half of 2018, the KGHM Polska Miedź S.A. Group was fully capable of meeting its obligations with respect to liabilities from other entities. The cash and cash equivalents held by the Group along with the external financing obtained ensure that liquidity will be maintained and enables the achievement of investment goals.

7. Other information

7.1. DESCRIPTION OF BASIC THREATS AND RISK FACTORS ASSOCIATED WITH THE SUBSEQUENT MONTHS OF THE FINANCIAL YEAR

Comprehensive Risk Management System in the KGHM Polska Miedź S.A. Group

The KGHM Polska Miedź S.A. Group defines risk as uncertainty, being an integral part of the activities conducted and having the potential to result in both opportunities and threats to achievement of the business goals. The current and future, actual and potential impact of risk on the KGHM Polska Miedź S.A. Group's activities is assessed. Based on this assessment, management practices are reviewed and adjusted in terms of responses to individual risk factors.

Under the Corporate Risk Management Policy and Procedure and the Rules of the Corporate Risk and Compliance Committee updated in the first half of 2018, the process of corporate risk management in the Group is consistently performed. KGHM Polska Miedź S.A. oversees the process of managing corporate risk in the Group.

Risk factors in various areas of the Group's operations are continuously identified, assessed and analysed in terms of their possible limitation. Key risk factors in the Group undergo in-depth analysis in order to develop a Risk Response Plan and Corrective Actions. Other risk factors undergo constant monitoring by the Department of Corporate Risk Management, Compliance and Continuity of Operations, and in terms of financial risk by the division of the Executive Director for Finance and Risk Management.

This comprehensive approach to analysing risk factors also comprises the identification of risk factors related to achieving the strategic goals. In the first half of 2018, risks were reviewed related to achievement of the strategic goals contained in the Main Strategy and in the Executory and Support Strategies.

The breakdown of rights and responsibilities applies best practice principles for Corporate Governance and the generally recognised model of three lines of defense.

Key risk factors and their mitigation

A detailed description of key risk factors of the KGHM Polska Miedź S.A. Group, together with mitigating actions and with an indication of specific risk factors for the Parent Entity and the KGHM INTERNATIONAL LTD. Group, was presented in the Management Board's Report on the Activities of KGHM Polska Miedź S.A. and KGHM Polska Miedź S.A. Group in 2017, available at the Company's website www.kghm.com (Chapter 12 - Risk management in the Group).

Market risk management

Commodity risk, currency risk	In terms of managing commodity and currency risk as well as the risk of changes in interest rates, the scale and profile of the activities of the Parent Entity and of the mining companies of the KGHM INTERNATIONAL LTD. Group are of the greatest significance for and have the greatest impact on the results of the Group. In the first half of 2018, the Parent Entity implemented hedging transactions on the copper market as well as transactions hedging against a change in the USD/PLN exchange rate (hedging of revenues from metals sales). Details are described in part 4 of the condensed consolidated financial statements. On 30 June 2018, the Parent Entity held an open hedging position on the copper market for the period from July 2018 to December 2020 for a total of 210 thousand tonnes of copper as well as an open hedging position on the currency market for USD 1 440 million of planned revenues from sales for the period from July 2018 to June 2020. In terms of managing currency risk deriving from bank loans, the Parent Entity applies natural hedging, based on the drawing of credit in those currencies in which it earns revenues (USD). The value of bank loans and other investment loans as at 30 June 2018 drawn in USD, after translation to PLN amounted to PLN 8 373 million.
Interest rate risk	As at 30 June 2018, the following positions were exposed to interest rate risk by impacting the amount of interest income and costs: – cash and cash equivalents: PLN 1 051 million, including deposits of special purpose funds: the Mine Closure Fund, the Tailings Storage Facility Restoration Fund and the Social Benefits Fund, – liabilities due to borrowings drawn: PLN 5 736 million.

	As at 30 June 2018, the following positions were exposed to interest rate risk due to changes in the fair value of instruments with fixed interest rates: – receivables due to loans granted by the Group: PLN 4 016 million, – liabilities due to loans drawn with fixed interest rates: PLN 2 865 million. Financial liabilities denominated in USD and EUR and based on LIBOR or EURIBOR, expose the Group to the risk of higher interest rates which would result in higher interest costs. As a result, taking into consideration the global exposure of the Group to interest rate risk, in the first half of 2018 the Parent Entity drew a loan based on a fixed interest rate and also drew a loan from the European Investment Bank based on a fixed interest rate. In addition, the Parent Entity remains hedged against an increase in the interest rate (LIBOR USD) by a call option (interest rate CAP) with a 2.50% interest rate for the years 2018-2020.
Price risk related to the change in share prices of listed companies	Price risk related to the shares of listed companies held by the Group is understood as the change in their fair value due to changes in their quoted share prices. As at 30 June 2018, the carrying amount of shares of companies held by the Group, which were listed on the Warsaw Stock Exchange and on the TSX Venture Exchange, amounted to PLN 466 million.

Other important information regarding market risk management is presented in part 4 of the condensed consolidated financial statements.

Credit risk management

Credit risk related to trade receivables	To reduce the risk of insolvency by its customers, the Parent Entity has entered into a receivables insurance contract, which covers receivables from counterparties with open buyer's credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, as at 30 June 2018 the Parent Entity had secured 90% of its trade receivables (as at 31 December 2017: 95%).
Credit risk related to cash and cash equivalents and bank deposits	The Group allocates periodically free cash in accordance with the requirements to maintain financial liquidity and limit risk and in order to protect capital and maximise interest income. Credit risk related to bank deposits is continuously monitored by the on-going review of the credit ratings of those financial institutions with which the Group cooperates, and by maintaining an appropriately low level of concentration in individual financial institutions.
Credit risk related to derivatives transactions	Detailed information may be found in part 4 of the condensed consolidated financial statements.
Credit risk related to loans granted	As at 30 June 2018, the balance of loans granted by the KGHM Polska Miedź S.A. Group amounted to PLN 4 324 million. This item is primarily comprised of long-term loans in the total amount of PLN 4 317 million, or USD 1 153 million, granted for the financing of a joint mining venture in Chile. Credit risk related to the loans granted is dependent on the successful realisation of the mine project.

Financial liquidity risk and capital management

Important information regarding financial liquidity risk and capital management is presented in part 4 of the condensed consolidated financial statements.

7.2. FACTORS WHICH, IN THE ISSUER'S OPINION, WILL IMPACT ITS RESULTS OVER AT LEAST THE FOLLOWING QUARTER

The main impact on the KGHM Polska Miedź S.A. Group's results is from the Parent Entity and, to a lesser extent, the KGHM INTERNATIONAL LTD. Group.

As a result, through the Parent Entity, the most significant factors affecting the Group's results over at least the following quarter are:

- copper and silver prices on the metals markets,
- the USD/PLN exchange rate,
- electrolytic copper production costs, in particular due to the minerals extraction tax and the value of purchased copper-bearing materials used,
- the effects of the implemented hedging policy, and
- gas-, geological- and temperature-related hazards, which could lead to a slowdown in mining progress.

The most significant factors affecting the results of the KGHM Polska Miedź S.A. Group, through the KGHM INTERNATIONAL LTD. Group, particularly in the following quarter, are:

- metals prices,
- the CLP/USD, CAD/USD and USD/PLN exchange rates, and
- mined copper production costs.

7.3. POSITION OF THE MANAGEMENT BOARD WITH RESPECT TO THE POSSIBILITY OF ACHIEVING PREVIOUSLY-PUBLISHED FORECASTS OF RESULTS

KGHM Polska Miedź S.A. has not published a forecast of financial results for 2018.

7.4. SIGNIFICANT CONTRACTS FOR THE GROUP

In the first half of 2018 and to the date of preparation of this report, the following contracts significant for the activities of the Parent Entity and the Group were entered into:

11 May 2018	An annex was signed to the contract entered into between KGHM Polska Miedź S.A. and Tele-Fonika Kable S.A. on 8 May 2015 for the sale of copper wire rod in the years 2016–2018 with the option to extend it for a subsequent two years. The annex introduces an altered and unified wording for the Contract and is in force as at 1 January 2018 and remains in force for the years 2018-2022. The total amount of wire rod sold under the Contract amounts to 290 thousand tonnes (58 thousand tonnes annually) with a buyer's option to increase the amount by 25 thousand tonnes (5 thousand tonnes annually). The value of the Contract (based on the forward copper price curve from 10 May 2018 and the average USD/PLN and EUR/PLN exchange rates announced by the National Bank of Poland dated 10 May 2018) following introduction of the Annex is estimated to be from PLN 7 480 million to PLN 8 116 million, depending on the volume of options used. The signing of the annex to the sales contract is a standard action for the copper wire rod market, aimed at extending the life of the contract and continuing cooperation under altered conditions which are satisfactory for both parties to the contract.
11 June 2018	A one-year contract was signed between KGHM Polska Miedź S.A. and Trafigura Pte. Ltd. for the sale of approx. 150 thousand tonnes dry weight of copper concentrate in 2018. The estimated value of the transaction is around PLN 541 million. The contract is in force from 21 February 2018. The value of sales contracts entered into between entities of the KGHM Group and its trade partner during the last 12 months (excluding the aforementioned Contract) ranges from approx. PLN 1 627 million to around PLN 1 679 million, depending on the volume of options used. The value was estimated based on known quotations, and for future periods as the expected prices of Cu, Ag, Au and of the USD/PLN exchange rate, in accordance with the „Macroeconomic sales assumptions for the years 2018-2022 and in the long term" adopted on 6 February 2018 by a decision of the Market Risk Committee. This contract is a standard concentrate sales contract in the copper sector. The previous contract for sales of concentrate by KGHM Polska Miedź S.A. to this customer was realised in 2016. This transaction will exceed 10% of the value of the consolidated equity of the KGHM Polska Miedź S.A. Group.

7.5. INFORMATION ON TRANSACTIONS ENTERED INTO BETWEEN RELATED PARTIES, UNDER OTHER THAN ARM'S LENGTH CONDITIONS

The KGHM Polska Miedź S.A. Group has implemented a variety of internal rules regulating the principles under which contracts between the Group's entities may be entered into, including:

- Organisational Regulation of the Vice President of the Management Board (Finance) of KGHM Polska Miedź S.A. regarding the introduction in the organisational units of KGHM Polska Miedź S.A. of rules for setting transaction prices and procedures for preparing taxation documentation, and setting rules for the cooperation of KGHM Polska Miedź S.A. with the companies of the Group,
- Rules of Financial Management and the Economic System of KGHM Polska Miedź S.A., and
- Procurement Policy of the KGHM Polska Miedź S.A. Group.

Acting in compliance with the aforementioned rules, during the first half of 2018 neither the Parent Entity nor its subsidiaries entered into significant transactions with related parties under other than arm's length conditions.

7.6. LITIGATION AND CLAIMS

At the end of the first half of 2018, the total value of on-going disputed issues both by and against KGHM Polska Miedź S.A. and its subsidiaries amounted to PLN 477 million, including receivables of PLN 226 million and liabilities of PLN 251 million. The total value of the above disputes did not exceed 10% of the equity of the Parent Entity.

Value of proceedings involving receivables at the end of the first half of 2018:

- proceedings by KGHM Polska Miedź S.A. amounted to PLN 142 million,
- proceedings by subsidiaries amounted to PLN 84 million.

Value of proceedings involving liabilities at the end of the first half of 2018:

- proceedings against KGHM Polska Miedź S.A. amounted to PLN 128 million,
- proceedings against subsidiaries amounted to PLN 123 million.

7.7. THE COMPANY ON THE WARSAW STOCK EXCHANGE (WSE)

Key share price data of the Company on the Warsaw Stock Exchange

KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange (WSE) in July 1997. The Company's shares are traded on the primary market of the WSE in the continuous trading system and are a component of the WIG, WIG20 and WIG30 indices, the sector index WIG-GÓRNICTWO and – until 10 July 2018 – the WIGdiv index. Continuously since 19 November 2009, the Company has participated in the RESPECT Index, which confirms its conformance with the highest standards of social responsibility. The RESPECT Index highlights those companies which are managed in a sustainable and responsible manner, and also highlights their investment attractiveness.

Key share price data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange are presented in the following table.

Table 32. Key share price data of the Company on Warsaw Stock Exchange

Symbol: KGH, ISIN: PLKGHM000017	Unit	1st half 2018	2017	1st half 2017
Number of shares issued	million	200	200	200
Market capitalisation of the Company at period's end	bn PLN	17.6	22.2	22.1
Average trading volume per session	units	618 356	790 249	913 943
Change in share price during the period	**%**	**-20.86**	**+20.24**	**+19.65**
Highest closing price during the period	PLN	115.00	135.50	135.50
Lowest closing price during the period	PLN	84.20	92.17	92.17
Closing price from the last day of trading in the period	PLN	88.00	111.20	110.65

Source: Own work based on WSE Statistic Bulletin for 2017 and for the first half of 2018

The Company's quotations in the first half of 2018

In the first half of 2018 the share price of KGHM Polska Miedź S.A. decreased by 21% and at the close of the session on 29 June 2018 amounted to PLN 88.00. During the same period the price of copper – the Company's main product – decreased by 7%. At the same time the main WSE indices decreased: the WIG index by 12%, the WIG20 index by 13%, and the WIG30 index by 13%, while the percentage change of the FTSE 350 mining index – an index comprised of companies from the mining sector, listed on the London Stock Exchange – amounted to +1%.

The Company's shares reached their half-year maximum closing price of PLN 115.00 on 15 January 2018. The minimum closing price of PLN 84.20 was recorded on 28 March 2018.

Chart 15. Share price of KGHM Polska Miedź S.A. versus the WIG index and FTSE 350 mining index (percentage change)

Source: KGHM, Bloomberg

Ownership structure and the Company's outstanding shares

As at 30 June 2018, the share capital of the Company, in accordance with the entry in the National Court Register, amounted to PLN 2 billion and was divided into 200 million shares, series A, having a face value of PLN 10 each. All shares are bearer shares. Each share grants the right to one vote at the General Meeting. The Company has not issued preference shares.

In the first half of 2018, there was no change in either registered share capital or in the number of outstanding shares issued. As far as the Company's Management Board is aware, there was also no change in the ownership structure of significant blocks of shares of KGHM Polska Miedź S.A. during the same period. As at 31 December 2017 as well as at 30 June 2018, the following shareholders held a number of shares granting the right to 5% or more of the total number of votes at the General Meeting of KGHM Polska Miedź S.A.: the Polish State Treasury and Nationale-Nederlanden Otwarty Fundusz Emerytalny.

On 17 July 2018 the Company received a notification that Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK had increased its share of the total number of votes in the Company to over 5%. As at 13 July 2018 this fund held 10 039 684 shares of the Company, representing 5.02% of the Company's share capital and granting the right to the same number of votes.

The Company's shareholder structure is as follows:

Table 33. Shareholder structure of the Company as at the date of signing this report

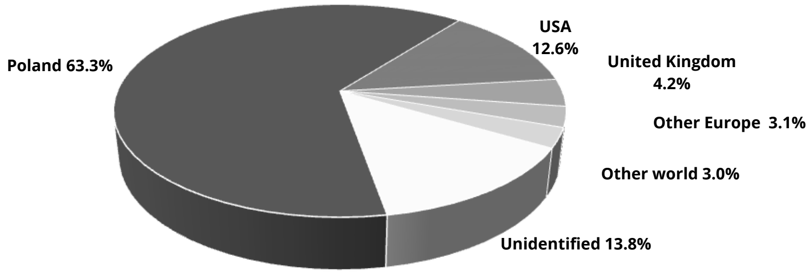
shareholder	number of shares/votes	% of share capital/total number of votes
State Treasury *	63 589 900	31.79%
Nationale-Nederlanden OFE **	10 104 354	5.05%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK***	10 039 684	5.02%
Other shareholders	116 266 062	58.14%
Total	**200 000 000**	**100.00%**

** based on a notification received by the Company dated 12 January 2010*
*** based on a notification received by the Company dated 18 August 2016*
**** based on a notification received by the Company dated 17 July 2018*

Other shareholders, whose total ownership of the share capital and share in the total number of votes amounts to 58.14%, are mainly institutional investors, both domestic and international.

Following is the geographic distribution of the Company's shareholder structure. The shareholder structure was developed based on research performed in the second quarter of 2018.

Chart 16. Geographic shareholder structure of KGHM Polska Miedź S.A. (%).



Source: CMi2i, as at end-April 2018

The number of KGHM Polska Miedź S.A.'s shares or rights to them owned by the Members of the Management Board and the Members of the Supervisory Board of KGHM Polska Miedź S.A. did not change in the period since the date of publication of the consolidated report for the first quarter of 2018 to 30 June 2018. Based on the information held by KGHM Polska Miedź S.A., as at 30 June 2018, no Member of the Management Board of the Company held shares of KGHM Polska Miedź S.A. or rights to them. The number of KGHM Polska Miedź S.A.'s shares or rights to them owned by Members of the Supervisory Board of the Company was as follows:

Table 34. Shares of KGHM Polska Miedź S.A. held by Members of the Supervisory Board of KGHM Polska Miedź S.A. as at 30 June 2018*

position/function	name and surname	number of shares	nominal value of shares (PLN)
Member of the Supervisory Board	Józef Czyczerski	10	100
Member of the Supervisory Board	Leszek Hajdacki	1	10

** Based on information held by the Company, other Members of the Supervisory Board did not hold shares of the Company or rights to them.*

Following the reporting date there were changes in the composition of the Management Board and Supervisory Board of KGHM Polska Miedź S.A. Based on information held by the Company's Management Board, as at the date of signing this report, none of the Members of the Management Board held shares of KGHM Polska Miedź S.A. or rights to them, while among the Members of the Supervisory Board on this date only Józef Czyczerski held 10 shares with a total nominal value of PLN 100.

The Company does not hold any treasury shares. The Management Board of the Company is unaware of any agreements which could result in changes in the proportion of shares held by present shareholders in the future.

7.8. ORGANISATIONAL CHANGES IN THE GROUP

In the first half of 2018, the following organisational changes were made in the Group.

Acquisition of employees' shares in the company Uzdrowisko Świeradów-Czerniawa Sp. z o.o. – Grupa PGU	In the first half of 2018, the acquisition of employees' shares in the company Uzdrowisko Świeradów-Czerniawa Sp. z o.o. – Grupa PGU continued. On 30 January 2018, 0.07% of this company's shares were purchased, increasing the interest held in its capital to 99.19%. The company Uzdrowisko Świeradów-Czerniawa Sp. z o.o. – Grupa PGU is part of the portfolio of the fund KGHM I FIZAN IN LIQUIDATION, whose sole participant is KGHM Polska Miedź S.A.
Commencement of the liquidation of KGHM I FIZAN	In the first half of 2018, the process began of liquidating the fund KGHM I FIZAN, whose sole participant is KGHM Polska Miedź S.A. and is managed by KGHM TFI S.A. - 100% of which is owned by KGHM Polska Miedź S.A. On 9 February 2018 the founding period of the fund expired, i.e. 8 years counting from the date of registration of the fund, representing a signal for its dissolution. Consequently, the process of liquidation commenced on 10 February 2018.
De-registration of the company „Elektrownia Blachownia Nowa" sp. z o.o. in liquidation	As a result of the conclusion of liquidation proceedings, on 20 March 2018 the company „Elektrownia Blachownia Nowa" sp. z o.o. in liquidation was de-registered. The company „Elektrownia Blachownia Nowa" sp. z o.o. was a joint venture of KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. In 2016, as a result of the withdrawal of the company from execution of the project to build a gas-steam block, the Extraordinary Partners Meeting resolved to dissolve and liquidate the company.
Liquidation of the company Malmbjerg Molybdenum A/S in liquidation	Following proceedings to liquidate the company, initiated by a decision on 10 November 2017 of the Extraordinary Partners Meeting, the company was formally liquidated on 3 May 2018. The decision to liquidate was related to the lack of economic justification for continuance of the project in Greenland.

KGHM Polska Miedź S.A. in the current half-year included 73 subsidiaries in its consolidated financial statements and accounted for two joint ventures (Sierra Gorda S.C.M., NANO CARBON Sp. z o.o.) using the equity method. The detailed structure of the KGHM Polska Miedź S.A. Group as well as the KGHM INTERNATIONAL LTD. Group as at 30 June 2018 may be found in Appendices 1 and 2.

Appendix 1 Structure of the KGHM Polska Miedź S.A. Group

KGHM Polska Miedź S.A.

- **KGHM V FIZAN** – 100%
- **KGHM I FIZAN in liquidation** – 100%
  - Polska Grupa Uzdrowisk Sp. z o.o. – 100%
  - Fundusz Hotele 01 Sp. z o.o. – 100%
  - Uzdrowiska Kłodzkie S.A. - Grupa PGU – 100%
  - Uzdrowisko Połczyn Grupa PGU S.A. – 100%
  - Staropolanka Spółka z o.o. – 100%
  - Uzdrowisko Świeradów -Czerniawa Sp. z o.o. - Grupa PGU – 99%
  - Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU – 99%
  - Interferie Medical SPA Sp. z o.o. – 90%
  - Fundusz Hotele 01 Sp. z o.o. S.K.A. – 100%
    - INTERFERIE S.A. – 70%
  - NANO CARBON Sp. z o.o. [1] – 49%
- **Cuprum Nieruchomości sp. z o.o.** – 100%
  - KGHM IV FIZAN – 100%
    - Cuprum Development sp. z o.o. – 100%
- **KGHM TFI S.A.** – 100%
- **CBJ sp. z o.o.** – 100%
- **INOVA Spółka z o.o.** – 100%
- **BIPROMET S.A.** – 100%
- **POL-MIEDŹ TRANS Sp. z o.o.** – 100%
- **PMT Linie Kolejowe 2 Sp. z o.o.** – 100%
  - PMT Linie Kolejowe Sp. z o.o. – 100%
- **KGHM ZANAM S.A.** – 100%
  - OOO ZANAM VOSTOK – 100%
- **„Energetyka" sp. z o.o.** – 100%
  - WPEC w Legnicy S.A. – 100%
- **KGHM Metraco S.A.** – 100%
  - CENTROZŁOM WROCŁAW S.A. – 100%
  - Walcownia Metali Nieżelaznych „ŁABĘDY" S.A. – 85%
- **Future 1 Sp. z o.o.** – 100%
  - KGHM Kupfer AG – 100%
  - KGHM INTERNATIONAL LTD. Group – 100%
- **KGHM (SHANGHAI) COPPER TRADING CO., LTD.** – 100%
- **KGHM CUPRUM sp. z o.o. – CBR** – 100%
- **Zagłębie Lubin S.A.** – 100%
- **„MCZ" S.A.** – 100%
- **TUW-CUPRUM** [2] – 100%
- **Future 2 Sp. z o.o.** – 100%
- **Future 3 Sp. z o.o.** – 100%
- **Future 4 Sp. z o.o.** – 100%
- **Future 5 Sp. z o.o.** – 100%
- **Future 6 Sp. z o.o.** – 100%
- **Future 7 Sp. z o.o.** – 100%
- **PeBeKa S.A.** – 100%
  - PeBeKa Canada Inc. – 100%
- **MERCUS Logistyka sp. z o.o.** – 100%
  - PHU „Lubinpex" Sp. z o.o. – 100%
- **NITROERG S.A.** – 87%
  - NITROERG SERWIS Sp. z o.o. – 87%

1/ joint venture accounted for using the equity method
2/ unconsolidated subsidiary

Group structure presented in Appendix 2

Appendix 2 Structure of the KGHM INTERNATIONAL LTD. Group

KGHM INTERNATIONAL LTD.

- **FNX Mining Company Inc.** 100%
  - DMC Mining Services Ltd. 100%
  - Quadra FNX Holdings Partnership 100%
    - Raise Boring Mining Services S.A. de C.V. 100%
    - FNX Mining Company USA Inc. 100%
      - DMC Mining Services Corporation 100%
  - Centenario Holdings Ltd. 100%
    - Minera Carrizalillo Limitada 100%
    - KGHM Chile SpA 100%
    - FRANKE HOLDINGS LTD. 100%
      - Sociedad Contractual Minera Franke 100%
  - DMC Mining Services Colombia SAS 100%
  - DMC Mining Services (UK) Ltd. 100%
- **0899196 B.C. Ltd.** 100%
- **KGHMI HOLDINGS LTD.** 100%
  - Quadra FNX FFI S.à r.l 100%
  - Aguas de la Sierra Limitada 100%
  - Quadra FNX Holdings Chile Limitada 100%
    - Sierra Gorda S.C.M. /1 55%
- **KGHM AJAX MINING INC.** 80%
  - Sugarloaf Ranches Ltd. /2 100%
- **Robinson Holdings (USA) Ltd.** 100%
  - Wendover Bulk Transhipment Company 100%
  - Robinson Nevada Mining Company 100%
  - Carlota Holdings Company 100%
    - Carlota Copper Company 100%

1/ joint venture accounted for using the equity method
2/ actual Group interest 80%

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY			
Date	**First, Last Name**	**Position/Function**	**Signature**
14 August 2018	Marcin Chludziński	President of the Management Board	
14 August 2018	Katarzyna Kreczmańska - Gigol	Vice President of the Management Board	
14 August 2018	Radosław Stach	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last Name**	**Position/Function**	**Signature**
14 August 2018	Łukasz Stelmach	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	